

# CRS Report for Congress

## Air Force Air Refueling: The KC-X Aircraft Acquisition Program

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Foreign Affairs, Defense, and Trade Division



Prepared for Members and  
Committees of Congress

## Report Documentation Page

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# Air Force Air Refueling: The KC-X Aircraft Acquisition Program

## Summary

KC-X is the first of three planned programs intended to recapitalize the Air Force's air refueling fleet. Eventually, the KC-X program is expected to acquire 179 new, commercial off-the-shelf airliners modified to accomplish air refueling. The program is expected to cost approximately \$35 billion. Both Boeing and a consortium consisting of Northrop Grumman and European Aeronautic Defence and Space Company (EADS) competed for KC-X. Boeing offered a variant of the 767-200, while Northrop Grumman submitted a version of the Airbus 330-200. On February 29, 2008, the Air Force awarded the KC-X contract to Northrop Grumman. The initial \$12.1 billion KC-X contract covers purchase the first 68 KC-45s of the anticipated 179 aircraft. Boeing protested the Air Force's decision to the Government Accountability Office (GAO). GAO upheld the Boeing protest, and in July, Defense Secretary Robert Gates announced that he would reopen the tanker competition.

Air Force in-flight aerial refueling aircraft, often referred to as "tankers," provide both persistence and range to Department of Defense (DOD) fighters, bombers, airlift and surveillance aircraft. The Air Force's tanker fleet greatly multiplies the effectiveness of DOD air power across the continuum of military operations. Today, the KC-135, which makes up the preponderance of the Air Force's tanker force, is among the Air Force's oldest aircraft. Potential issues for Congress include:

- How long can the KC-135 fly?
- What is the lowest cost alternative for KC-135 recapitalization?
- How many new tankers does the Air Force require?
- What will KC-X cost?
- What capabilities should KC-X have?
- How will KC-X fit with future tanker requirements?
- Was the competition fair?
- What are the economic and trade effects of the KC-X program?
- What is the impact of Boeing's contract protest?
- Why did the GAO sustain the protest?
- Can DOD split the tanker contract between the competitors?
- Where does the Air Force plan to base KC-X aircraft?

Government-sponsored analysis concluded that purchasing new, commercial aircraft to recapitalize DOD's tanker fleet is the least expensive option for recapitalizing the KC-135 fleet from a life-cycle cost perspective. It is also the most capital intensive option. At least three less capital intensive options could potentially augment the Air Force's longer-term KC-X program:

- Buy and convert surplus commercial airliners into military tankers
- Re-engine some fraction of the KC-135E fleet
- Develop commercial Fee-For-Service aerial refueling (FFS AR)

This report will be updated as conditions warrant.

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# Air Force Air Refueling: The KC-X Aircraft Acquisition Program

## Introduction

KC-X is the first of three planned programs intended to recapitalize the Air Force's air refueling fleet. Eventually, the KC-X program is expected to acquire 179 new, commercial off-the-shelf airliners modified to accomplish air refueling missions. The program is expected to cost a total of approximately \$35 billion. Both Boeing and a consortium consisting of Northrop Grumman and European Aeronautic Defense and Space Company (EADS) — the parent company of Airbus — competed for KC-X. Boeing offered a variant of the 767-200, while Northrop Grumman submitted a version of the Airbus 330-200.

On February 29, 2008, the Air Force awarded the KC-X contract to Northrop Grumman. The initial \$12.1 billion KC-X contract provides for the purchase of the first 68 KC-45s of the anticipated 179 aircraft.<sup>1</sup> On March 11, 2008, Boeing filed a formal protest of Air Force's decision,<sup>2</sup> and on June 18, 2008, the Government Accountability Office (GAO) upheld this protest. On July 9, 2008 Defense Secretary Robert Gates announced that he agreed with GAO's findings that the tanker competition was flawed and that DOD would therefore reopen KC-X bidding process.

Air Force in-flight air refueling aircraft, or "tankers," enable Department of Defense (DOD) fighters, bombers, airlift and surveillance aircraft to fly farther and stay aloft longer. As such, the Air Force's tanker fleet greatly multiplies the effectiveness of DOD air power across the full continuum of military operations. Today, the KC-135, which makes up the preponderance of the Air Force's tanker force, is among the Air Force's oldest aircraft. Potential issues for Congress include:

- How long will the KC-135 remain a viable air refueling platform?
- What is the lowest cost alternative for KC-135 recapitalization?
- How many new tankers does the Air Force require?
- What will KC-X cost?
- What capabilities should KC-X have?
- How will KC-X fit with future tanker requirements?
- Was the competition fair?

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<sup>1</sup> "Tanker Contract Award Announced," Air Force Print News, February 29, 2008, online at [<http://www.af.mil/news/story.asp?id=123088392>].

<sup>2</sup> Boeing News Release, "Boeing Protests U.S. Air Force Tanker Contract Award," March 11, 2008, online at [[http://www.boeing.com/ids/globaltanker/news/2008/q1/080311b\\_nr.html](http://www.boeing.com/ids/globaltanker/news/2008/q1/080311b_nr.html)].

- What are the economic and trade effects of the KC-X program?
- What is the impact of Boeing's contract protest?
- Why did the GAO sustain the protest?
- Where does the Air Force plan to base KC-X aircraft?

Government-sponsored analysis concluded that purchasing new, commercial off-the-shelf aircraft to recapitalize DOD's tanker fleet is the least expensive option for recapitalizing the KC-135 fleet from a life-cycle cost perspective. However, this course of action is also capital intensive in the near-term when compared with other potential courses of action. At least four alternatives to the Air Force's KC-X acquisition were suggested each of which could potentially still be compatible with the Air Force's longer-term KC-X program:

- Use a "Split-Buy" model for future tanker recapitalization
- Buy and convert surplus commercial airliners into military tankers
- Re-engine some fraction of the KC-135E fleet
- Develop commercial Fee-For-Service aerial refueling (FFS AR)

## Select Legislation

### FY2009

The Administration's KC-X request for FY2009 includes \$62 million in advanced procurement funding for five aircraft expected to be procured in FY2010 and delivered in 2012.<sup>3</sup> Additionally, the Administration requested \$832 million for RDT&E funding to support system development and demonstration.<sup>4</sup>

In their report 110-652 (H.R. 5658) House authorizers denied the Air Force's request for advanced procurement funding. The committee included three provisions related to aerial refueling. Sec. 132 requires the Air Force to maintain at least 46 KC-135E aircraft in long-term storage. Sec. 133 repeals an out-of-date section from PL 108-136, and Sec. 134 requires the Secretary of the Air Force to report on the process used to determine KC-X requirements. The House matched the request for R&D funding. In their report 110-335 (S. 3001) Senate authorizers rejected the Air Force request for advance procurement and instead transferred these funds to KC-X R&D.

On July 30, 2008, House Appropriators released a statement summarizing their mark-up of the FY2009 Defense Appropriations Bill. In this press release, the committee "directs that industrial base concerns be included in the evaluation of the

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<sup>3</sup> "Aircraft Procurement, Air Force, Volume 1," *USAF Committee Staff Procurement Backup Book, FY2009 Budget Estimates*, February 2008, pp. 2-33.

<sup>4</sup> "Research, Development, Test and Evaluation (RDT&E), Descriptive Summaries, Volume 2, Budget Activities 4-6," *Department of the Air Force FY2009 Budget Estimates*, February 2008, p. 987.

tanker contract award.”<sup>5</sup> Press reporting of this mark-up assert that this provision gives Boeing an advantage in the revised competition for KC-X.<sup>6</sup>

## FY2008

The Administration requested \$314 million for KC-X RDT&E, which authorizers fully supported.<sup>7</sup> Appropriators, as in FY2007, provided \$114 million for RDT&E.<sup>8</sup> Additionally, appropriators provided \$150 million into a “Tanker Replacement Transfer Fund” thereby providing the Air Force latitude to use the funds as needed in procurement, operations and maintenance, and/or RDT&E as needed to support KC-X acquisition.<sup>9</sup>

## FY2007

The Administration’s KC-X request was for \$36 million for advanced procurement funding and nearly \$204 million for research, development, test, and evaluation (RDT&E). However, authorizers denied the requested procurement funding and cut RDT&E funding to \$152 million.<sup>10</sup> Appropriators provided a total of \$70 million in funding stating, “the amount provided in the conference agreement was identified in writing by the Department of Defense as the level needed to meet all fiscal year 2007 requirements.”<sup>11</sup>

## Background

The KC-X program — currently the Air Force’s top acquisition priority — is the first of three planned programs intended to recapitalize the Air Force’s air refueling fleet.<sup>12</sup> As part of the KC-X program, the Air Force is expected to acquire 179 new, commercial off-the-shelf airliners modified to accomplish air refueling missions. The Air Force plans to designate the new aircraft as the KC-45A.<sup>13</sup> Future programs known as KC-Y and KC-Z — each anticipated to replace approximately

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<sup>5</sup> [<http://appropriations.house.gov/pdf/MurthaSubMarkup07-30-08.pdf>]

<sup>6</sup> Les Blumenthal. “Boeing Tanker Bid Gets Big Boost.” *Seattle Times*. July 31, 2008. John Doyle. “Appropriators to USAF: Consider tanker’s industrial base concerns.” *Aerospace Daily & Defense Report*. August 1, 2008.

<sup>7</sup> H.Rept. 110-477, Conference Report to Accompany H.R. 1585, p. 797.

<sup>8</sup> H.Rept. 110-434, Conference Report to Accompany H.R. 3222, pp. 308.

<sup>9</sup> *Ibid*, Section 8112, p. 46.

<sup>10</sup> H.Rept. 109-702, Conference Report to Accompany H.R. 5122.

<sup>11</sup> H.Rept. 109-676, Conference Report to Accompany H.R. 5631, p. 315.

<sup>12</sup> Major General (USAF) Larry Spencer, “FY09 President’s Budget: ‘America’s Edge: Global Vigilance, Reach and Power,’ FY2009 Budget Rollout Brief, February 4, 2008, Slide 8, online at [<http://www.saffm.hq.af.mil/shared/media/document/AFD-080204-089.pdf>].

<sup>13</sup>

“Now All We Need is the Aircraft,” *Air Force Association Daily Report*, January 24, 2008.

one-third of the Air Force's tanker force — are expected to continue the recapitalization effort over the next several decades.

To provide the context of why the Air Force is pursuing the KC-X program today, this section of the report analyzes the role of air refueling aircraft in joint operations, outlines the DOD's current air refueling capabilities, and explains key air refueling operational constructs from which tanker requirements are derived. In addition, a review of refueling issues previously faced by Congress is provided in **Appendix A**.

## Air Refueling in Joint Operations

Air refueling has played a significant role in our nation's national security beginning in the Cold War and continuing into current military operations. Tankers increase the range and flexibility of forces and extend the amount of time combat and surveillance aircraft can stay "on-station." They also extend the range of fighters, bombers, and other aircraft. According to Air Force leaders, "Clearly the tanker fleet is really some of the very fiber that holds our Air Force's unique global capabilities together. It is an essential enabler for getting to the fight and fighting the fight."<sup>14</sup>

**Cold War.** The Air Force initially began to purchase the KC-135 fleet in the mid-1950s to refuel newly acquired B-52 nuclear bombers operated by Strategic Air Command.<sup>15</sup> Additionally, air refueling played a significant conventional role in the Vietnam War during the 1960s and 1970s by flying 194,687 sorties (an average of more than 21,000 sorties each year) that refueled 813,378 aircraft with almost 9 billion pounds of jet fuel.<sup>16</sup> A brief review of recent conflicts indicates the importance of tanker aircraft.

**1991 Persian Gulf.** During the 1991 Gulf War, tankers contributed to two objectives: "the speedy deployment of large air forces into the region, and the use of these forces in large and complex air combat operations."<sup>17</sup> First, nearly 100 tankers formed "air bridges" across the Atlantic and Pacific Oceans that allowed fully loaded fighters and bombers to deploy nonstop from U.S. bases directly into the Persian Gulf region. During combat operations, tankers allowed air defense and command and control aircraft to remain aloft for extended periods of time while extending the range

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<sup>14</sup> A. Butler, "Air Force Mulling Replacement for Aging, Maintenance-Needy KC-135," *Inside the Air Force*, May 4, 2001.

<sup>15</sup> Richard K. Smith, *75 Years of Inflight Refueling: Highlights 1923-1998*, Air Force History and Museum Program, 1998, pp. 44-45.

<sup>16</sup> Ibid, p. 60.

<sup>17</sup> Thomas A Keaney and Elliot A. Cohen, *Gulf War Air Power Survey Summary Report*, Washington, D.C., 1993, p. 190.

of most attack missions.<sup>18</sup> In so doing, 306 tankers flew 16,865 missions while delivering over 800 million pounds of fuel to 51,696 receiver aircraft.<sup>19</sup>

**Recent Operations.** In 1999, 175 air refueling aircraft participated in NATO combat operations in Kosovo by flying 5,215 sorties while transferring more than 253 million pounds of fuel to 23,095 coalition receivers.<sup>20</sup> Between September 11, 2001 and the end of 2007, tankers flew 10,400 missions enabling homeland defense air patrols as part of Operation Noble Eagle.<sup>21</sup> Combat operations in Afghanistan during 2001 and 2002 required 80 tankers that executed 15,468 sorties while offloading 1.166 billion pounds of fuel to 50,585 aircraft.<sup>22</sup> Operation Iraqi Freedom also required a significant tanker contribution, requiring a peak of 305 tankers in March of 2003.<sup>23</sup> In 2003, 185 tankers flew 6,193 sorties refueling 28,899 receivers with 376 million pound of fuel.<sup>24</sup> **Table 1** summarizes tanker contributions to ongoing operations in both Afghanistan and Iraq from 2004 to 2007.

**Table 1. Tanker Operations in Iraq and Afghanistan, 2004-2007**

	2004	2005	2006	2007
<b>Sorties</b>	12,465	12,391	12,787	15,875
<b>Fuel Offloaded (lbs.)</b>	740 million	778 million	871 million	946 million
<b>Receivers Refueled</b>	N/A	N/A	42,083	79,798

Source: U.S. Central Air Forces/Combined Air Operations Center Public Affairs Office.

## DOD Air Refueling Capabilities

Air Force KC-135 Stratotankers and KC-10 Extenders form the preponderance of DOD's air refueling capability and the KC-X program is designed to recapitalize this portion of DOD air refueling capability. Both Stratotankers and Extenders can also carry passengers and cargo. However, airlift capability comes at the expense of a corresponding decrease in the amount of fuel they can carry. Further, the Air Force, Navy and Marine Corps also maintain small refueling fleets tailored to meet service-specific requirements.

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<sup>18</sup> Ibid.

<sup>19</sup> GAO-04-349, *Military Aircraft: DOD Needs to Determine Its Aerial Refueling Requirements*, June 2004, p. 10.

<sup>20</sup> Ibid.

<sup>21</sup> "Noble Eagle Sorties Continue," Air Force Association Daily Report, January 4, 2008, online at [<http://dailyreport.afa.org/AFA/datapoints/2008/>].

<sup>22</sup> GAO-04-349, p. 10.

<sup>23</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, pp. 27-28.

<sup>24</sup> GAO-04-349, p. 10.

**KC-135 Stratotanker.** KC-135s first entered service between 1957 and 1965, as Boeing delivered 732 KC-135A Stratotankers to the Air Force. In the 1980s, KC-135As were upgraded to KC-135Es with four Pratt & Whitney TF-33 engines — capable of producing approximately 18,000 pounds of thrust. E-model engines were obtained from surplus commercial Boeing 707 airliners. Beginning in 1982, other KC-135As were upgraded to KC-135Rs following modification with four CFM-56/F108 turbofans — each capable of generating approximately 22,000 pounds of thrust. Today, the KC-135 fleet averages approximately 46-years of age. Twenty KC-135Rs have been modified with Multi-Point Refueling System wingtip pods so they can simultaneously refuel two probe-equipped aircraft.<sup>25</sup> Another eight KC-135Rs have been modified to receive fuel in-flight. On-going modifications are giving KC-135s advanced avionics that improve reliability and meet increasingly stringent global air traffic management requirements.<sup>26</sup> KC-135 aircraft specifications are listed in **Appendix B**. **Table 2** summarizes selected operational characteristics of the Air Force's KC-10 and KC-135 air refueling aircraft.

**Table 2. KC-135 and KC-10 Operational Capabilities**

	Inventory	Fuel Capacity	Passengers	Cargo <sup>a</sup>
<b>KC-10A</b>	59	356,000 lbs.	75	170,000 lbs
<b>KC-135E</b>	85	180,000 lbs.	54	83,000 lbs
<b>KC-135R</b>	418	200,000 lbs.	54	83,000 lbs

**Sources:** The Air Force Handbook 2007, pp. 172-175; current KC-135E inventory verified through e-mail with SAF/LL, January 28, 2008.

a. Cargo payloads are in lieu of carrying fuel.

**KC-10 Extender.** The KC-10 combines air refueling and long-range cargo capabilities into a single aircraft. The KC-10 is more flexible and more capable than the KC-135 as it can carry much more fuel and can be refueled in the air to increase delivery range or on-station time. It is, however, less maneuverable on the ground than the KC-135. All KC-10s use an advanced flying boom<sup>27</sup> that can refuel either boom or probe and drogue receivers on the same flight.<sup>28</sup> Additionally, 20 KC-10s have been equipped with wingtip probe and drogue systems similar to ones installed

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<sup>25</sup> Probe and drogue air refueling is accomplished by a probe-equipped receiver flying the receiver aircraft's probe into the tanker's drogue — a basket attached to the end of a flexible hose or the tankers boom. Once connected, the tanker transfers fuel to the receiver aircraft.

<sup>26</sup> Susan H. H. Young, "Gallery of USAF Weapons," *Air Force Magazine*, May 2007, p. 145.

<sup>27</sup> Boom in-flight air refueling is accomplished by an Air Force Airman known as the Boom Operator, flying the tanker's refueling boom into the receiver's receptacle. Once connected, the tanker pumps fuel from its fuel tanks into the receiver's fuel tanks.

<sup>28</sup> Ibid.

on the KC-135.<sup>29</sup> The KC-10 currently averages approximately 23 years of age.<sup>30</sup> KC-10 aircraft specifications are listed in **Appendix C**.

**Service Organic Air Refueling.** The Air Force, Marine Corps, and Navy maintain some air refueling capability to facilitate certain organic capabilities. The Air Force operates modified C-130s to refuel Air Force special operations and combat search and rescue helicopters while the Marine Corps uses modified C-130s to refuel Marine helicopters and fighters. Further, some Navy aircraft have been configured to refuel other Navy or Marine Corps aircraft in-flight as a secondary mission. These aircraft give carrier battle groups organic refueling capability when operating independently. However, carrier-based naval aircraft are capable of providing relatively small fuel off-loads in comparison to Air Force tankers. Thus, the Navy primarily relies on the use of Air Force tankers for long-range flight operations.<sup>31</sup>

## Air Refueling Operational Concepts

Air refueling aircraft support a wide variety of aviation missions, such as, but not limited to: surveillance, air-lift, long-range bombing, battlefield interdiction, and air superiority. Each of these missions requires different aerial refueling capabilities. Therefore, when planning the acquisition of a tanker fleet, careful consideration must be given to a few key attributes. For example, a tanker aircraft's method of dispensing fuel – flying boom vs. probe and drogue – is a key factor for mission planners. For some missions, the gross amount of fuel carried by a tanker must be weighed against the number of tankers and the number of refueling points (either boom or hose) that can be brought to bear. Finally, some tankers can themselves be refueled by other tankers while in flight, which can add considerable flexibility to certain air operations.

**Boom vs. Probe and Drogue Air Refueling.**<sup>32</sup> Aircraft can be equipped to be refueled from a flying boom (most Air Force aircraft) or with a probe and drogue (most Navy, Marine Corps, and allied aircraft). Mission planners must ensure that tankers in the field are equipped to connect with their intended receiver aircraft. **Figure 1** illustrates “boom” air refueling.

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<sup>29</sup> *The Air Force Handbook 2007*, pp. 172-175.

<sup>30</sup> “Age of the Active Duty Fleet,” *Air Force Magazine*, May 2007, p. 63.

<sup>31</sup> Department of the Navy (N78) provided to CRS by email September 2, 2005.

<sup>32</sup> For more information on aerial refueling methods, see CRS Report RL32910, *Air Force Aerial Refueling Methods: Flying Boom versus Hose-and-Drogue*, by Christopher Bolkcom.

**Figure 1. Photo of “Boom” Air Refueling**

**Source:** USAF Photo by A1C Lonnie Mast.

Both the KC-10 and KC-135, can perform both “Boom” and “Drogue” refueling. However, while KC-10s can refuel either type on the same mission, most KC-135s must be converted from “Boom” refueling to “Drogue” or vice versa on the ground. This limitation reduces the KC-135s effectiveness in comparison to the KC-10 and potentially in comparison to the KC-X which is expected to be equipped to refuel both receiver types on the same mission. **Figure 2** illustrates hose and drogue refueling.

**Figure 2. Photo of “Hose and Drogue” Air Refueling**

**Source:** USAF photo by TSgt Erik Gudmundson.

**Capacity vs. “Booms in the Air”.** The type and number of receivers (Boom vs Drogue) on a given mission establishes the timing, location and fuel off-load demands for tankers in the field. Thus, the number of tankers required to support a mission is sometimes driven by the tanker’s offload capacity. Other times, tanker mission requirements are based on maintaining sufficient tankers aloft to match the timing and location of receiving aircraft needs. Planners strive to accomplish air refueling missions as efficiently as possible while optimizing the effectiveness of the receiver’s mission. Therefore, planners must ensure scheduled tankers have sufficient capacity and are scheduled in sufficient numbers to ensure the overall effects desired by joint force commanders.<sup>33</sup> Thus, considering the breadth of missions DOD might face, and considering a given amount of money, acquisition officials must weigh whether air forces are best served by a few tankers with lots of fuel, or more tankers, each of which would carry less fuel.

**Tanker’s Receiver Capability.** A tanker that is capable of both giving and receiving fuel in flight may also bolster flexibility for air operations. Because of the dynamic nature of military operations, the type of aircraft planned to fly a given mission can change; often at the last minute. Tanker aircraft that themselves can be refueled in the air can help mitigate these last minute changes by serving as an aerial “consolidation point.” Tankers that have the “wrong” refueling method (due to a last minute change in mission) can off-load their fuel into another tanker that has the “right” refueling method. Optimally, *all* Air Force tankers would be able to take on fuel while airborne, but acquiring this capability costs money. How many tankers should have this capability, and at what cost?

## Issues for Congress

The KC-X program is anticipated to begin recapitalizing the Air Force’s Eisenhower-era KC-135 fleet, which makes up the preponderance of the Air Force’s tanker force. Potential issues for Congress surrounding the KC-X program include:

- How long can the KC-135s Fly?
- What is the lowest cost alternative for KC-135 recapitalization?
- How many new tankers does the Air Force require?
- What will KC-X cost?
- What capabilities should KC-X have?
- Was the competition fair?
- What are the economic and trade effects of the KC-X program?
- What is the impact of Boeing’s contract protest?
- Why did the GAO sustain the protest?
- Can DOD split the tanker contract between the competitors?
- Where might KC-X aircraft be based?

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<sup>33</sup> Ibid.

## How Long Can KC-135s Fly?

During the controversy that surrounded the Air Force's 2001 tanker lease proposal, a Defense Science Board (DSB) task force was formed to study the urgency of recapitalizing the KC-135 fleet. As part of the study, DSB examined the potential longevity of the KC-135 fleet. The 2006 RAND Analysis of Alternatives (AOA) also looked at the technical condition of the KC-135 fleet. The DSB stated that airframe service life, corrosion, and maintenance costs factors would potentially determine the KC-135s operational life expectancy.<sup>34</sup>

**Airframe Service Life.** KC-135s, along with their B-52 counterparts, were originally purchased to give the United States a nuclear strategic strike capability. As a result, both fleets of airplanes spent a significant amount of time during the Cold War on ground alert. Consequently, in 2004, the average KC-135 airframe had flown only about 17,000 hours of an estimated service life of 36,000 hours (KC-135E) or 39,000 hours (KC-135R). Thus, the DSB concluded that KC-135 airframe were viable until 2040 at "current usage rates."<sup>35</sup> The 2006 RAND AOA also concluded that the KC-135 fleet "can operate into the 2040s," but not without risks.<sup>36</sup>

**Corrosion.** The 2004 DSB Task Force concluded that corrosion did not pose an "imminent catastrophic threat to the KC-135 fleet" and that the Air Force's maintenance practices were postured "to deal with corrosion and other aging problems."<sup>37</sup> The task force went on to say,

However, because the KC-135s are true first generation turbojet aircraft designed only 50 years from the time man first began to fly, concerns regarding the ability to continue operating these aircraft indefinitely are intuitively well founded.<sup>38</sup>

**Maintenance Costs.** KC-135 maintenance costs were the subject of widespread concern earlier in this decade. For example, the Government Accountability Office found that KC-135 flying hour costs increased by 29% between 1996 and 2002 when adjusted to constant 2002 dollars.<sup>39</sup> In contrast, the 2004 DSB task force agreed that KC-135 maintenance costs had increased significantly, but found they had leveled off due to changes the Air Force made in its

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<sup>34</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, p. iv.

<sup>35</sup> *Ibid.*

<sup>36</sup> Michael Kennedy et al., "Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary," RAND Corporation, 2006, pp. 15-16.

<sup>37</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, p. iv.

<sup>38</sup> *Ibid.*, p. 17.

<sup>39</sup> GAO-04-349, "Military Aircraft, DOD needs to Determine Its Aerial Refueling Requirements," June 2004, p. 13.

KC-135 depot processes. Based on the more current data, DSB forecasted more modest growth in the future.<sup>40</sup>

**Outlook.** While many believe the Air Force can continue to operate some number of KC-135s for many years, concerns are often expressed about potential maintenance problems that may arise in flying 50 to 80 year-old tankers that could possibly result in the entire KC-135 fleet being grounded. The DSB examined this issue and concluded: “although grounding is possible, the task force assesses the probability as no more likely than that of any other aircraft in the inventory of the Services.”<sup>41</sup>

RAND’s AOA was less conclusive. For example, the AOA believe it is possible that KC-135 will be able to operate in the 2040s. However, the AOA lacked confidence that future operation could continue without risks of major maintenance cost increases, poor fleet availability or possible fleet-wide grounding. Further, the AOA concluded that “the nation does not currently have sufficient knowledge about the state of the KC-135 fleet to project its technical condition over the next several decades with high confidence.”<sup>42</sup> RAND recommended more thorough scientific and technical study of the KC-135 to provide a more reliable basis for future assessments of the condition of the KC-135 fleet.<sup>43</sup>

## What Is the Lowest Cost Option for Tanker Recapitalization?

In 2004, consistent with congressional direction, the Acting Undersecretary for Defense for Acquisition, Technology and Logistics directed the Air Force to conduct an Analysis for Alternatives (AOA) for air refueling. The AOA had two purposes — first, to identify lowest cost options for recapitalizing the Air Force’s KC-135 fleet; and second, to inform recapitalization timing. The RAND Corporation was subsequently selected to conduct the AOA and the findings were independently reviewed for sufficiency both within DOD and by the Institute of Defense Analysis.<sup>44</sup> RAND considered the following alternatives for recapitalization:

- Newly purchased commercial-derivative tankers
- Used commercial-derivative tankers
- Newly purchased military-derivative tankers
- Newly designed tankers
- Unmanned aerial vehicles as tankers
- Stealthy tankers
- Fleets comprised of a combination of the above options

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<sup>40</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, pp. iv-v.

<sup>41</sup> *Ibid*, p. 18.

<sup>42</sup> Michael Kennedy et al., “Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary,” RAND Corporation, 2006, p. 16.

<sup>43</sup> *Ibid*.

<sup>44</sup> Michael Kennedy et al., “Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary,” RAND Corporation, 2006, p. 1.

- Commercial sources for air refueling<sup>45</sup>

RAND's AOA identified the present value of the full spectrum of costs associated with the various alternatives. While RAND's AOA considered alternatives with significant passenger and cargo capability, it considered only the costs associated with air refueling. As such, RAND's AOA did not draw conclusions about the impact of various sized aircraft on ramp space and infrastructure in operational scenarios. Rather, RAND's AOA deferred both matters to "senior decision maker judgment."<sup>46</sup> The 2006 AOA presented the following conclusions regarding KC-135 recapitalization:

- New commercially-derived tankers of medium to larger size (300,000 to 1,000,000 pound maximum gross takeoff weight) are the most cost-effective alternative. Specifically, the AOA found the Airbus 330 and 340 and the Boeing 747, 767, 777, and 787 all to be viable candidates.
- Small (e.g., Boeing 737 and Airbus 321) and very large (e.g., Airbus 380) are not cost effective alternatives even in mixed fleets with medium to large sized tankers.
- Used commercial aircraft are not as cost-effective as buying new commercial aircraft. However, the cost penalty is not high enough to exclude this option under certain circumstances. (Note: this option will be discussed later in this report).
- New-design tankers are not a cost-effective alternative.
- Unmanned tankers are not a cost-effective alternative.
- "Stealthy tankers are significantly more expensive than non-stealthy tankers, although they offer some effectiveness benefits." The AOA defers to military judgement to determine if the additional capability exists to justify the increased cost
- "There is no compelling reason for the Air Force to outsource aerial refueling." (Note: this option will be discussed later in this report.)<sup>47</sup>

## How Many Tankers Does the Air Force Need?

Air refueling requirements ultimately derive from the President's overall national security strategy. Based on the President's strategy, DOD periodically studies the global threat environment and seeks to identify the military force structure necessary to meet national objectives, and articulates this analysis in the National Military Strategy (NMS) and Quadrennial Defense Review (QDR). Next, in the case of air refueling, DOD examines the status of its fleet and quantifies future air refueling requirements to judge whether current programs are sufficient to support DOD force structure and the President's strategy.

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<sup>45</sup> Ibid, pp. 7-8.

<sup>46</sup> Ibid, p. 9.

<sup>47</sup> Ibid, pp. 12-13.

Over the past several years, DOD has conducted three studies that have reached similar conclusions about the required size of the Air Force's air refueling fleet. In 2001, DOD released the Tanker Requirements Study 2005 that concluded DOD required 500-600 KC-135R equivalents to meet the NMS in a "pre-9/11" context. During the midst of the Air Force's tanker lease controversy, a Defense Science Board (DSB) task force examined air refueling requirements in May of 2004 with a focus of assessing the urgency of initiating KC-135 recapitalization. In June 2004, DOD began its first "post 9/11" review of transportation requirements. The current Mobility Capability Study (MCS) was completed in December 2005 and briefed to Congress in February 2006.

**National Military Strategy (NMS).** The 2004 DSB task force focused on assessing the ability of the Air Force's tanker fleet to meet the NMS. The NMS defined what is commonly referred to as the "1-4-2-1" strategy by stating,

The force must be sized to defend the US homeland while continuing to operate in and from four forward regions to deter aggression and coercion and set conditions for future operations. Even when committed to a limited number of lesser contingencies, the Armed Forces must retain the capability to swiftly defeat adversaries in two overlapping military campaigns. Additionally, when the President calls for an enduring result in one of the two, the force must have the capability and capacity to win decisively.<sup>48</sup>

Accordingly, the DSB task force found that homeland defense could require "up to 122 KC-135 equivalent tankers ... depending on the number of patrol aircraft aloft."<sup>49</sup> Additionally, the task force identified that "the major driver for future aerial refueling needs is the number and type of nearly simultaneous 'major' operations."<sup>50</sup> As such, the task force examined 2003 operations in Iraq as a basis for informing requirements of a "major" operation. What the task force found was that "direct and indirect" tankers operations in Iraq "peaked at 319" aircraft with 182 aircraft "forward deployed" into Central Command's theater.<sup>51</sup> Further, the task force observed that "one can envision major theater campaigns of greater scale and intensity than [Iraq]."<sup>52</sup> The task force, however, did not analyze the efficiency of tankers used to support Iraq operations.<sup>53</sup> **Table 3** summarizes examples of tankers used during recent operations.

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<sup>48</sup> "The National Military Strategy of the United States of America," 2004, p. 4.

<sup>49</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, p. 28.

<sup>50</sup> *Ibid.* p. 27.

<sup>51</sup> *Ibid.*

<sup>52</sup> *Ibid.*

**Table 3. Tankers Used in Recent Operations**

Conflict	Tankers Utilized
1991 Persian Gulf War (Iraq/Kuwait)	306
1998 Balkans/Kosovo	175
2001 Afghanistan	80
2003 Iraq	305/319 <sup>a</sup>

**Source:** CRS compiled from data found in DSB Task Force Report on Aerial Refueling Requirements and GAO-04-349.

a. DSB reported 319 while GAO cited 305 tankers for Iraq operations.

Based on these studies and assumptions, it has been argued that homeland defense requirements coupled with any two of the aforementioned operations call for an air refueling fleet of at least 500 aircraft as reportedly echoed by the Air Force's 2005 Tanker Requirement Study.

**Mobility Capability Study (MCS).** According to the unclassified executive summary of the 2005 MCS, the study assessed the capabilities of the current and projected force by providing a range of potential resource requirements for inter-theater (strategic) airlift, intra-theater (tactical) airlift, and air refueling fleets. The MCS identified a need for between 520 and 640 air refueling aircraft to provide sufficient capability with acceptable risk.<sup>53</sup> By the end of FY2008, the Air Force expects to have between 477 and 514 aircraft (0 to 37 KC-135Es,<sup>54</sup> 418 KC-135Rs, and 59 KC-10s). Thus, by the end of FY2008, the Air Force will potentially possess an air refueling fleet smaller than the one recommended by the MCS.

Some analysts criticized the MCS for its methodology and focus. In September 2005, the Government Accountability Office (GAO) listed a number of shortcomings in methodology for the ongoing MCS.<sup>55</sup> A more detailed GAO criticism followed in September 2006 after the final MCS was released.<sup>56</sup> In light of the criticism, some have called for DOD or an independent agency to conduct another mobility study to rectify the MCS's perceived shortcomings. Consequently, Section 1046 of the 2008

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<sup>53</sup> "Headquarters Air Mobility Command White Paper, KC-X: The Next Mobility Platform, The Need for a Flexible Tanker," February 28, 2007, p. 4.

<sup>54</sup> Section 135, 2008 National Defense Authorization Act allows the Air Force to retire 48 KC-135Es immediately and provides contingent authority to retire the remaining 37 KC-135Es provided the KC-X contract has been awarded and any subsequent protests resolved. See H.Rept. 110-477, December 6, 2007, pp. 30-31.

<sup>55</sup> *Defense Transportation: Opportunities Exist to Enhance the Credibility of the Current and Future Mobility Capabilities Studies*, Government Accountability Office, September, 2005.

<sup>56</sup> *Defense Transportation: Study Limitations Raise Questions About the Adequacy and Completeness of the Mobility Capabilities Study and Report*, GAO, September 2006.

National Defense Authorization Act (P.L. 110-181) directed DOD to conduct a comprehensive requirements-based study of fixed-wing airlift to include full-spectrum life-cycle costs of operating current KC-135 and KC-10 fleets, while also analyzing the impact of planned KC-X aircraft. This study is required to forecast requirements for 2012, 2018 and 2024 and is due to Congress by January 10, 2009.<sup>57</sup>

## What Will KC-X Cost?

On February 29, 2008, the Air Force awarded the KC-X contract to Northrop Grumman. The initial contract is for \$1.5 billion to purchase four KC-45s for system design and development and includes five production lot options valued at \$10.6 billion to procure an additional 64 aircraft. The Air Force expects the total KC-X program to cost approximately \$35 billion.<sup>58</sup>

## What Capabilities Should KC-X Have?

Both KC-X competitors have the potential to significantly improve the airlift capability of DOD's tanker fleet. One issue was how much airlift capability the air refueling fleet should provide. Also, based on growing threats, some argued that new tankers should be equipped with defensive systems.

**Airlift Capability: Doors and Floors.** The Air Force envisions KC-X to be built from the outset with reinforced floors necessary for carrying either passengers or cargo in the fuselage, a cargo door sized to facilitate loading and off-loading, and defensive systems enabling a KC-X to operate in certain threat environments. Even though airlift is a secondary mission for KC-X, many believe the Air Force should continue to buy tankers that possess an airlift capability.

**DOD's Position.** Several DOD leaders have pushed for airlift capacity on tankers. Some believe the 2006 QDR signaled support for a passenger and cargo requirement for KC-X as it stated, "the Department [of Defense] is also considering the acquisition of a future KC-X aircraft that will have defensive systems and provide significant cargo carrying capacity while supporting its aerial refueling mission."<sup>59</sup> Further, joint doctrine explains the value of having tankers with airlift capability.

"Additionally, all USAF tanker aircraft are capable of performing an airlift role and are used to augment core airlift assets. Under the dual role concept, air refueling aircraft can transport a combination of passengers and cargo while performing air refueling. In some circumstances, it may be more efficient to employ air refueling aircraft strictly in an airlift role. Deploying air refueling units may be tasked to use their organic capacity to transport unit personnel and

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<sup>57</sup> H.Rept. 110-477, December 6, 2007, pp. 313-316.

<sup>58</sup> Transcript, DOD News Briefing with Secretary of the Air Force Michael Wynne, Gen. Duncan McNabb, Sue Payton, and Gen. Arthur Lichte, Arlington, VA, February 29, 2008, online at [<http://www.defenselink.mil/transcripts/transcript.aspx?transcriptid=4163>].

<sup>59</sup> "Quadrennial Defense Review Report," February 6, 2006, p. 54.

support equipment or passengers and cargo from other units. Air refueling aircraft may also be used to support USTRANSCOM airlift requirements.”<sup>60</sup>

In April 2006, General Norton Schwartz, who at the time was Commander of U.S. Transportation Command, also expressed a strong preference for a multi-role tanker.

“What we need is a multi-mission tanker that can do both boom and basket refueling, that can do passenger lift, some cargo lift, and have defensive systems that allow the airplane to go wherever we need to take it....if we’re going to war with Iran or Korea or over Taiwan or a major scenario, the first 15 to 30 days are going to be air refueling intensive. But what I’m talking about is the global war on terrorism, sir, for the next 15 or 20 or 25 years. That is not an air refueling intensive scenario and that’s why a multi-mission airplane to me makes sense.”<sup>61</sup>

**How Tankers with Airlift Capability Might Be Employed.** General Schwartz also expects the KC-X to “mitigate wear and tear on the C-5 and C-17.”<sup>62</sup> The following scenario is an example of how a KC-X, with doors, floors, and defensive systems might arguably expand the flexibility of the airlift system. A KC-X while flying a scheduled combat air refueling mission, could be subsequently retasked in-flight, land at an airfield located within a threat environment, upload battle casualties, and air evacuate the patients to needed medical care in another theater. This example is sometimes cited to illustrate how a KC-X, with defensive systems not currently found on KC-135s, might provide planners with additional options to execute an unplanned medical evacuation sortie — perhaps while also negating the need to tap a strategic airlift platform. Likewise, this scenario could be applied to the movement of other time-sensitive cargo or passengers. Finally, passenger and cargo capability allows joint commanders the opportunity to deploy aircraft support personnel and associated ground support equipment in tandem with their associated aircraft during aircraft deployment missions.<sup>63</sup> By moving the aircraft, crews, support personnel and equipment together, deploying aviation units may be able to achieve operational status more quickly at their destination.

**Airlift Requirements.** The Government Accountability Office (GAO) has criticized DOD for including a passenger and cargo requirement in KC-X without conducting required analyses. As a result, GAO made two recommendations to DOD. First, GAO recommended DOD direct the Air Force to determine, through analysis, if there is a gap, shortfall, or redundancy to justify adding a passenger or cargo capability to KC-X and to present results to the Joint Staff’s Joint

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<sup>60</sup> *Joint Publication 3-17*, “Joint Doctrine, Tactics, Techniques, and Procedures for Air Mobility Operations,” August 14, 2002, pp. V-1 and V-2.

<sup>61</sup> “Senate Armed Services Subcommittee on Seapower Holds Hearing on FY2007 Budget: Transportation Command.” *CQ Congressional Transcripts*. April 4, 2006.

<sup>62</sup> General Norton A. Schwartz (USAF), Commander, U.S. Transportation Command, Written Statement before the Senate Homeland Security and Governmental Affairs Committee, Federal Financial Management, Government Information, Federal Services, and International Security Subcommittee, September 27, 2007, p. 6.

<sup>63</sup> *Air Force Doctrine Document 2-6, Air Mobility Operations*, March 1, 2006, p. 48.

Requirement's Oversight Council (JROC) for validation. DOD did not concur with this recommendation stating they believed the Air Force had presented sufficient analyses to the JROC to justify the addition of a passenger and cargo capability for KC-X. Second, the GAO recommended that DOD direct the Chairman, Joint Chiefs of Staff to notify the Under Secretary of Defense for Acquisition, Technology and Logistics before certifying the KC-X program to Congress. DOD concurred with this recommendation.<sup>64</sup>

Further, according the Air Force's KC-X White Paper, "preliminary results of the in-progress Mobility Capability Study 06 show that tankers are least in demand when airlift assets are stretched most thin during the early deployment phase of a conflict."<sup>65</sup> This may be considered significant to some as the strategic airlift fleet is currently expected to grow to 301 aircraft (190 C-17s and 111 C-5s) — near the bottom of the MCS 05 required range of 292 to 383 strategic airlift aircraft.<sup>66</sup>

**Cost of Airlift Capability.** While many support having an airlift capability on the Air Force's next generation tanker, this capability is not without costs. For example, the 2006 RAND Analysis of Alternatives (AOA) pointed out two potential costs to adding this capability will:

- "Require additional structure and systems, which increase the cost of each aircraft."<sup>67</sup> The AOA found that an air refueling fleet where every aircraft was equipped with airlift capability added 6% to total life-cycle costs compared to a fleet where no tankers were equipped with passenger and cargo capability.<sup>68</sup>
- Increase fleet requirements because "the weight of the additional structure and systems means that each aircraft can carry less fuel."<sup>69</sup>

**Summary of Airlift Analysis.** The RAND AOA found that the cost-benefit analysis of adding an airlift capability in future tankers to be "a matter for senior decisionmaker judgment."<sup>70</sup> The amount of airlift ultimately to be provided by the tanker fleet could have important implications for other air mobility programs.

**Defensive Systems.** Defensive systems, such as missile warning devices, radar warning receivers, flares and chaff, facilitate a tanker aircraft's primary

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<sup>64</sup> GAO-07-367R, "Defense Acquisitions: Air Force Decision to Include a Passenger and Cargo Capability in Its Replacement Refueling Aircraft Was Made without Required Analysis," March 6, 2007, p. 17.

<sup>65</sup> "Headquarters Air Mobility Command White Paper, KC-X: The Next Mobility Platform, The Need for a Flexible Tanker," February 28, 2007, p. 6.

<sup>66</sup> *Ibid*, p. 4.

<sup>67</sup> Michael Kennedy et al., "Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary," RAND Corporation, 2006, p. 9.

<sup>68</sup> *Ibid*, p. 14.

<sup>69</sup> *Ibid*, p. 9.

<sup>70</sup> *Ibid*.

mission of in-flight air refueling by potentially enabling the tanker to operate closer to its refueling track, thus, making more fuel available on each mission. Operations in Iraq and Afghanistan have found tankers operating in an increasingly hostile threat environment. For example, the Air Force points out that tankers operating in U.S. Central Command's theater were fired upon 19 times in FY2006. Additionally, defensive systems also increase a tanker's capability in its secondary mission of airlift.<sup>71</sup>

## Was the KC-X Competition Fair?

In 2006, RAND Corporation concluded an Analysis of Alternatives (AOA) for recapitalizing the Air Force's KC-135 fleet. RAND found that purchasing new commercially-derived tankers was the most cost-effective means of initially recapitalizing the fleet.<sup>72</sup> As a result, the Air Force released a formal request for proposals (RFP) in early 2007.<sup>73</sup> The Boeing Company responded to the RFP with the KC-767, a variant of the commercial 767-200, while Northrop Grumman teamed with European Aeronautic Defense and Space Company (EADS) to offer a tanker version of the Airbus 330-200.

**Request for Proposal.** In January 2007, the Air Force released its formal Request for Proposal (RFP) for the KC-X acquisition program. Assistant Secretary of the Air Force, Sue Payton, reportedly emphasized that the Air Force had completed a rigorous review process for KC-X to ensure the RFP mirrors joint war-fighting requirements.<sup>74</sup> The RFP outlined nine primary key performance parameters:

- Air refueling capability
- Fuel offload and range at least as great as the KC-135
- Compliant Communication, Navigation, Surveillance/Air Traffic Management (CNS/ATM) equipment
- Airlift capability
- Ability to take on fuel while airborne
- Sufficient force protection measures
- Ability to network into the information available in the battle space
- Survivability measures (defensive systems, Electro-Magnetic Pulse (EMP) hardening, chemical/biological protection, etc.)

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<sup>71</sup> "Headquarters Air Mobility Command White Paper, KC-X: The Next Mobility Platform, The Need for a Flexible Tanker," February 28, 2007, p. 3.

<sup>72</sup> KC-135 Recapitalization Analysis of Alternatives. Briefing to Congress. January 26-27, 2006.

<sup>73</sup> "Air Force Posts KC-X Request for Proposals," *Air Force Print News Today*, January 31, 2007, online at [<http://www.af.mil/news/story.asp?id=123039360>].

<sup>74</sup> "Air Force Posts KC-X Request for Proposals," *Air Force Print News Today*, Press Release 070107, January 30, 2007, online at [[http://www.af.mil/pressreleases/story\\_print.asp?id=123039273](http://www.af.mil/pressreleases/story_print.asp?id=123039273)].

- Provisioning for a multi-point refueling system to support Navy and Allied aircraft<sup>75</sup>

In November 2007, Ms. Payton explained the evaluation criteria that the Air Force used in determining the KC-X competition. The KC-X evaluation factors are:

- Factor 1 - Mission Capability. Mission capability includes five subfactors listed in descending order of importance:
  - Subfactor 1.1 - Key System Requirements
  - Subfactor 1.2 - Subsystem Integration and Software
  - Subfactor 1.3 - Product Support
  - Subfactor 1.4 - Program Management
  - Subfactor 1.5 - Technology Maturity and Demonstration
- Factor 2 - Proposal Risk
- Factor 3 - Past Performance
- Factor 4 - Cost/Price
- Factor 5 - Integrated Fleet Air Refueling Assessment<sup>76</sup>

The Air Force considered the first three KC-X evaluation factors of equal importance. The final two factors were considered of equal importance, but less important relative to the first three criterion. Lastly, the Air Force regarded “Factors 1, 2, 3, and 5, when combined, [to be] significantly more important than factor 4.”<sup>77</sup>

**RFP Analysis.** There was considerable comment in the media questioning whether the draft (December 2006) of the KC-X request for proposal (RFP) was biased toward the capabilities apparent in Boeing’s KC-767. Close review of this RFP was partially the result of the controversy surrounding the 2001 tanker lease proposal. It is important to note within this context, that the primary consideration in DOD’s overall weapon acquisition system is designed to be meeting warfighter requirements, not what is most profitable to “Company X” or “Company Y.” Northrop Grumman and Airbus reportedly complained that the original KC-X RFP did not adequately address how the Air Force would evaluate the candidate aircraft’s airlift capability. Reportedly, they feared that the Air Force might not weight the score of KC-30’s airlift capabilities in a favorable manner.

In the absence of detailed airlift evaluation information, however, Airbus could have offered a smaller aircraft, such as its A300/A310 class, which it might believe corresponded more closely to Air Force requirements.<sup>78</sup> Similarly, if Boeing

<sup>75</sup> Ibid.

<sup>76</sup> USAF slide obtained from “Performance Comes First,” Air Force Association Daily Report, November 21, 2007, online at [<http://dailyreport.afa.org/AFA/Reports/2007/Month11/Day21/1028factors.htm>].

<sup>77</sup> Ibid.

<sup>78</sup> The last A300/A310 class aircraft were produced in 2007 and the A300/A310 production line was terminated. However, if Airbus believed that a smaller sized tanker was more compatible with Air Force requirements and therefore more competitive than a larger A330-  
(continued...)

concluded the Air Force desired a larger aircraft with more airlift capability, it could have conceivably offered the Boeing 777 aircraft or a larger variant of the Boeing 767 design.

Reduced demand for defense-unique systems and the resulting consolidation of the defense industrial base has frequently reduced the number of companies available to provide a given defense article, which can adversely affect competition. Therefore, often some compromise between a warfighter's "perfect world" requirements and real world industrial capabilities is unavoidable. However, substantially modifying warfighter requirements or Key Performance Parameters (KPPs)<sup>79</sup> to jibe with what industry wants to offer, may appear to some to reflect an imbalance between requirements and capabilities.

As DOD refined its final requirement, most observers saw nothing obvious in the KC-X RFP that would inherently bias the contract award in favor of any platform that could be offered by the competitors. The RFP made clear, however, that the aircraft's primary mission is refueling DOD and allied aircraft with the flying boom mechanism. Any passenger or cargo carrying capability was deemed a "secondary mission." Additionally, at the beginning stages of its recapitalization program, the Air Force potentially has great flexibility in pursuing the best KC-X match now as requirements for planned programs such as KC-Y and KC-Z can later be adapted to best complement the KC-X selection.

**Comparing the Competitors.** According to many defense analysts, both competitors' proposals offered key improvements over the KC-135 by including:

- Receiver in-flight refueling capability
- Defensive systems
- Advanced booms capable of refueling both "boom" and "drogue" receivers on the same mission
- Improved airlift capacity and utility
- Wing-mounted pods for hose and drogue systems.

However, debate surrounding the competing proposals often focused on differences in size. The following is a brief description of both the Boeing KC-767 and Northrop Grumman KC-30 aircraft submissions along with highlights of some issues frequently raised through the media.

**Boeing KC-767.** Boeing touted its entrant, a version of the Boeing 767-200 as the "right-sized" tanker. Proponents of the KC-767 argue that it is most similar

<sup>78</sup> (...continued)

class aircraft, Airbus could have taken steps to keep the line available for production.

<sup>79</sup> Key Performance Parameters (KPP) are defined as "those attributes or characteristics of a system that are considered critical or essential to the development of an effective military capability and those attributes that make a significant contribution to the key characteristics as defined in the Joint Operations Concept." Defense Acquisitions University Glossary of Defense Acquisitions Acronyms and Terms, 12<sup>th</sup> Edition, online at [<https://akss.dau.mil/pv/glossary.aspx>].

in size and offload capacity to the KC-135. Further, proponents stated that the KC-767's smaller "footprint" compared to the competing KC-30 might enable it to better utilize potentially limited ramp space in forward operating locations. Additionally, proponents believed the smaller KC-767 to be potentially more fuel efficient due to its lower gross weight leading to less fuel being burned in transit.<sup>80</sup> Selected KC-767 aircraft specifications are listed in **Appendix D**.

**Northrop Grumman KC-30.** Northrop Grumman, on the other hand, believed the KC-30, based on the Airbus 330-200, offered superior value in comparison to the KC-767 because of its larger size. KC-30 proponents espoused the aircraft's potentially greater fuel offload capability and larger airlift capacity in terms of weight, pallet positions and passengers when compared to the KC-767. As a result, KC-30 proponents believed their aircraft would reduce the number of aircraft required to meet some potential operational scenarios.<sup>81</sup> Selected KC-30 aircraft specifications are listed in **Appendix E**.

**International Customers.** Both competitors have secured international customers. Boeing currently has two international customers for the KC-767—Italy (4) and Japan (4).<sup>82</sup> Likewise, Saudi Arabia (3),<sup>83</sup> Australia (5), the United Arab Emirates (3), and the United Kingdom (14) plan to buy the KC-30 from Airbus, a division of EADS.<sup>84</sup> While some look to the international orders as a potential signpost for how the Air Force's KC-X selection should proceed, others will point out that each country has made its selection based on the unique military requirements that face each nation. Likewise, DOD's requirements may differ considerably from other nations that have recently purchased tanker aircraft.

## What are the Economic and Trade Effects of KC-X?

On February 29, 2008, the Air Force awarded the KC-X contract to Northrop Grumman.<sup>85</sup> Some Members of Congress have voiced concerns over the Air Force's selection of Northrop Grumman. Though a significant portion of the Boeing 767 is manufactured outside of the United States and major components of the A330 come from U.S. suppliers, the partnering of Northrop Grumman with the U.S. subsidiary of a Europe-based aerospace company has raised concerns for some. Issues raised by Members in Congress often draw particular attention to Boeing and Airbus disputes currently before the World Trade Organization (WTO), potential effects on

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<sup>80</sup> Online at [<http://www.boeing.com>].

<sup>81</sup> "KC-30 Tanker: Total Air Mobility," online at [<http://www.northropgrumman.com/kc30>].

<sup>82</sup> "The Boeing Company: Boeing 767 Military Versions," *Jane's All The World's Aircraft*, March 14, 2007, online at [<http://www.janes.com>].

<sup>83</sup> Marcus Weisgerber, "Saudi Arabia to Buy Three Airbus A-330 Multirole Tankers, EADS Says," *Inside the Air Force*, January 4, 2008.

<sup>84</sup> "Airbus Industrie: Airbus Multirole Tanker Transport (MRTT)," *Jane's All The World's Aircraft*, January 21, 2008, online at [<http://www.janes.com>].

<sup>85</sup> "Tanker Contract Award Announced," Air Force Print News, February 29, 2008, online at [<http://www.af.mil/news/story.asp?id=123088392>].

the U.S. aviation industrial base, and questioning whether the contract met the requirements of the *Buy America Act*.

**WTO Dispute.** The U.S. government has alleged that Airbus' parent company, European Aeronautic and Defense Company (EADS), received illegal subsidies from European governments. Likewise, the European Union (EU) has charged that Boeing has received illegal subsidies from the United States. Both disputes are being litigated with the World Trade Organization (WTO).<sup>86</sup> Reportedly, a WTO ruling regarding the U.S. government charges against EADS may come by summer 2008,<sup>87</sup> while the WTO may rule on the EU's case against Boeing by November 2008.<sup>88</sup> However, some have suggested that an initial ruling may not bring final resolution to the dispute due to the complexity of the cases and the potential for further litigation.<sup>89</sup>

Some in Congress observe that if the WTO dispute is resolved in favor of the U.S. government,<sup>90</sup> that the WTO could under some circumstances allow the United States to apply tariffs to goods manufactured by Airbus — goods that would not otherwise be subject to tariffs. Further, some have expressed concern that American taxpayers could potentially be forced to pay increased costs for the KC-45 as a result of potential tariffs levied on Airbus products. In response to this concern while testifying before Congress in March 2008, Under Secretary of Defense for Acquisition, John Young, stated, "WTO rulings cannot be passed along to the Air Force or the Department of Defense as a cost on a contract with the Department of Defense. So if there is a ruling [against EADS] and a penalty, it can't be passed along to us as a cost."<sup>91</sup>

Others have questioned whether the Air Force's award of the KC-X contract to Northrop Grumman could possibly affect the United States's leverage in settling the Airbus-Boeing WTO dispute. For example, some in Congress have suggested that the award of a contract of the size of the KC-X program that has the potential to

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<sup>86</sup> For an overview of the Boeing/Airbus WTO trade dispute, see CRS Report RL34381, *European Union — U.S. Trade and Investment Relations: Key Issues*, coordinated by Raymond J. Ahearn.

<sup>87</sup> "Schwab Says Airbus WTO Case Unaffected by Tanker Decision," *Inside U.S. Trade*, March 7, 2008, online at [[http://www.insidetrade.com/secure/dspx\\_nl\\_txt.asp?f=wto2002.ask&dh=106446419&q=](http://www.insidetrade.com/secure/dspx_nl_txt.asp?f=wto2002.ask&dh=106446419&q=)].

<sup>88</sup> Timothy R. Homan, "WTO Rulings Could Fuel Legislative Fight Brewing Over Tanker Contract," *CQ Today*, March 6, 2008, p. 3.

<sup>89</sup> Robert Herzstein, "Don't Expect the WTO to Resolve the Boeing-Airbus Dispute," *European Affairs*, Spring/Summer 2006, online at [[http://www.europeanaffairs.org/current\\_issue/2006\\_spring\\_summer/2006\\_spring\\_summer\\_08.php4](http://www.europeanaffairs.org/current_issue/2006_spring_summer/2006_spring_summer_08.php4)].

<sup>90</sup> Any possible retaliation sanctioned by the WTO could take many months, if not years, to materialize. At this point in time, retaliation is very much hypothetical, as is guessing which sectors or products may potentially be retaliated against.

<sup>91</sup> Transcript from the House Armed Services Subcommittee on Air and Land Forces and Subcommittee on Sea and Expeditionary Forces Hold Joint Hearing on the Department of the Navy and Air Force Tactical Aviation Programs, March 11, 2008.

benefit a company our government has lodged a complaint against with the WTO could send mixed signals.<sup>92</sup> On the other hand, some have suggested that the political controversy surrounding the award of the KC-X contract to a consortium that involves Airbus may increase the likelihood Airbus will attempt to settle its dispute with Boeing outside of the WTO process in an effort to secure support from members of Congress. Further, others have speculated that the potential financial boost that Airbus may enjoy from the KC-X contract could possibly reduce Airbus's need to rely on what some perceive as aircraft launch assistance subsidies.<sup>93</sup> Still other observers see only a remote impact of the KC-X contract on the willingness of either Boeing or Airbus to settle the dispute prior to a WTO ruling. For example, Susan Schwab, U.S. Trade representative, reportedly stated, "the Air Force procurement has no impact on our efforts in Geneva to address the launch aid problem."<sup>94</sup>

Some in Congress have suggested that Congress should block contracts from going to foreign companies accused of funding their programs with illegal subsidies.<sup>95</sup> However, some analysts counter that the commercial aircraft industry, like the personal computer and automobile industries, has globalized, drawing on the relative strengths of specialized suppliers of components and expertise from around the world. As a result, the two primary manufacturers, Boeing and Airbus, have both outsourced key parts of their production processes to overseas firms.<sup>96</sup> Further, some caution that potential trade legislation may "have major repercussions" that may prove harmful to the U.S. industrial base in the long term.<sup>97</sup> To illustrate the impact of globalization on the commercial airliner manufacturing industry, a list of subcontractors, corporate parent domiciles and sub-components found on the commercial variants of the Boeing 767 and Airbus 330 is provided in **Appendix F**.

**U.S. Industrial Base Implications.** Some in Congress are concerned about the implications of awarding the KC-X contract to Northrop Grumman on the United States industrial base. However, during testimony to Congress, Assistant Secretary of the Air Force, Ms. Sue Payton, stated that, "job creation, location of assembly and manufacturing were not part of this evaluation criteria, according to the law" and that "industrial capacity was not part of the evaluation criteria."<sup>98</sup> To some, there are

<sup>92</sup> Ibid.

<sup>93</sup> "Schwab Says Airbus WTO Case Unaffected by Tanker Decision," *Inside U.S. Trade*, March 7, 2008, online at [[http://www.insidetrade.com/secure/dspx\\_nl\\_txt.asp?f=wto2002.ask&dh=106446419&q=1](http://www.insidetrade.com/secure/dspx_nl_txt.asp?f=wto2002.ask&dh=106446419&q=1)].

<sup>94</sup> Ibid.

<sup>95</sup> John M. Donnelly, "Air Force Contract Draws More Fire," *CQ Today*, March 4, 2008, pp. 1, 4.

<sup>96</sup> Gary Clyde Hufbauer, "Boeing vs. Airbus: Fighting the Last War," Op-ed in *Handelsblatt*, June 19, 2007, online at [<http://www.petersoninstitute.org/publications/opeds/print.cfm?doc=pub&ResearchID=773>].

<sup>97</sup> Timothy R. Homan, "WTO Rulings Could Fuel Legislative Fight Brewing Over Tanker Contract," *CQ Today*, March 6, 2008, p. 3.

<sup>98</sup> Transcript from Hearing on Contract Award for Tanker Replacement Program, Committee (continued...)

significant differences between the economic impact of the Boeing and Northrop Grumman proposals. Making an authoritative, “apples-to-apples” comparison on the amount of direct and indirect jobs from either contractor’s proposal is nearly impossible. For example, both companies may have used differing methodology and assumptions in calculating their estimates and estimates are frequently revised. Further, how the contract award may potentially affect the long-term military industrial base is unclear.

Boeing’s KC-X plan calls for aircraft assembly to occur at its Everett, Washington plant. Further, Boeing’s proposal would convert the 767 into a tanker at its plant in Wichita, Kansas. Boeing claims that 44,000 American workers from 300 U.S. suppliers would be involved in building the KC-767 Advanced Tanker.<sup>99</sup> As of January 1, 2008, Boeing had orders to deliver an additional 52 aircraft in the 767 product line.<sup>100</sup> Boeing supporters may contend that losing the KC-X line will result in Boeing’s 767 line becoming unprofitable and subsequently closing. Others may counter that losing the KC-X may allow Boeing to concentrate more heavily on its 787 commercial airliner — an aircraft that Boeing had received 817 orders for as of January 1, 2008.<sup>101</sup>

Northrop Grumman plans to assemble the KC-45 in a new plant planned for Mobile, Alabama — a move it believes will result in the creation of 2,000 new jobs. Northrop Grumman originally indicated their proposal would result in 25,000 direct and indirect American jobs based a Department of Commerce jobs projection model. More recently, Northrop Grumman raised its job estimate to approximately 48,000 direct and indirect jobs and 230 suppliers from 49 states. Northrop Grumman based the revised estimate on feedback received from suppliers and a Department of Labor formula that projects jobs by specific region.<sup>102</sup> Further, EADS announced plans in January 2008 to conduct final assembly of all freighter versions of the Airbus 330-200 in Mobile, Alabama — raising the potential for creating new domestic jobs if their candidate were chosen for KC-X.<sup>103</sup> Some have estimated a market for 200 Airbus 330-200 freighters over the next 10 years and as of January 2008, Airbus had

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<sup>98</sup> (...continued)

on Appropriations, Subcommittee on Defense, United States House of Representatives, March 5, 2008.

<sup>99</sup> Boeing press release, “Boeing KC-767 Tanker Win Would Benefit Arizona Economy,” November 26, 2007.

<sup>100</sup> “The Boeing Company: Boeing 767,” *Jane’s All the World’s Aircraft*, February 15, 2008, online at [<http://www.janes.com>].

<sup>101</sup> “The Boeing Company: Boeing 787 Dreamliner,” *Jane’s All the World’s Aircraft*, February 20, 2008, online at [<http://www.janes.com>].

<sup>102</sup> Press release, “Northrop Grumman Updates Job Projections for Air Force KC-45A Program,” March 11, 2008, online at [[http://www.irconnect.com/noc/press/pages/news\\_releases.html?d=138001](http://www.irconnect.com/noc/press/pages/news_releases.html?d=138001)].

<sup>103</sup> Jen DiMascio, “Airbus Vows to Boost Business in Alabama If it Can Make Tankers There,” *Defense Daily*, Vol. 237, Issue 9, January 15, 2008.

orders for approximately 60 aircraft.<sup>104</sup> Thus, proponents of Northrop Grumman's KC-X proposal may believe that the long-term economic benefits of obtaining an Airbus commercial airline production line on U.S. soil are potentially substantial.

**Buy American Act.** Some have questioned whether Northrop Grumman's proposal satisfies requirements in the Buy American Act<sup>105</sup> which requires the federal government to purchase domestically manufactured goods. The statute defines goods to have been domestically manufactured if their components have "substantially all" been mined, produced, or manufactured within the United States. The definition of "substantially all" has been left to the Federal Acquisition Regulations (FAR). In the FAR, a good is considered "domestic" if the cost of domestically produced components exceeds 50% of the value of the whole article.<sup>106</sup>

One way a KC-X contractor could potentially satisfy requirements of the Buy American Act is by having 50% or more of total cost of their proposed aircraft produced in the United States. Reportedly, approximately 85% of Boeing's KC-X proposal would be manufactured in the United States.<sup>107</sup> Further, Northrop Grumman claims that "at least 58 percent" of its proposal will be comprised of products manufactured by American companies.<sup>108</sup> Based on those calculations, both proposed aircraft would appear to satisfy *Buy American Act* requirements.

## What Is the Impact of Boeing's Protest?

Throughout the KC-X competition, there has been a great deal of speculation in the media that the award of the KC-X contract would be followed by a bid protest. Competitors are allowed to protest the award of government contracts to the Government Accountability Office.<sup>109</sup> Air Force officials debriefed both Boeing and Northrop Grumman officials on how their respective bids were scored in March

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<sup>104</sup> "Airbus 330," *Jane's All the World's Aircraft*, February 19, 2008, online at [<http://www.janes.com>].

<sup>105</sup> For more information, see CRS Report 97-765, *The Buy American Act: Requiring Government Purchases to Come from Domestic Sources*, by John R. Luckey.

<sup>106</sup> FAR § 25.101. Members have occasionally attempted to codify a definition of "substantially all." The most recent example is S. 581, introduced in the Senate by Senator Russell D. Feingold on February 14, 2007. The bill would have accepted goods as domestically produced "if the cost of the domestic components of such articles, materials, or supplies exceeds 75 percent of the total cost of all components of such articles, materials, or supplies."

<sup>107</sup> Eric Rosenburg, "Boeing Duels for Tanker Deal," *Seattle Post-Intelligencer*, September 30, 2007, online at [[http://seattlepi.nwsource.com/business/333751\\_tanker01.html](http://seattlepi.nwsource.com/business/333751_tanker01.html)].

<sup>108</sup> "Northrop Grumman's KC-45 Tanker: Making the Right Choice," January 25, 2007, online at [<http://www.northropgrumman.com/kc45/benefits/choice.html>].

<sup>109</sup> For more information on "Protest" process see GAO-06-797SP, "Bid Protest at GAO: A Descriptive Guide," Eighth Edition, 2006.

2008. On March 11, 2008, Boeing protested the Air Force's decision to the GAO.<sup>110</sup> On March 26, 2008, both the Air Force and Northrop Grumman separately filed motions for the GAO to dismiss portions of Boeing's protest;<sup>111</sup> however, the GAO rejected these motions.<sup>112</sup> Work on the KC-45A stopped while the GAO considered the protest.<sup>113</sup>

Boeing's protest is based on a perception that the Air Force used a flawed process in the KC-X selection process. For example, in a press release detailing Boeing's rationale for protesting, Boeing stated:

It is clear that frequent and often unstated changes during the course of the competition — including manipulation of evaluation criteria and application of unstated and unsupported priorities among the key system requirements — resulted in selection of an aircraft that was radically different from that sought by the Air Force.<sup>114</sup>

Further, Boeing stated that both teams received identical ratings across the five evaluation areas in the KC-X competition. Boeing claims that the Air Force's treatment of both Boeing's cost estimates and Boeing's past experience of building Air Force tankers, if scored differently, could have affected the outcome of the source selection.<sup>115</sup> In response to Boeing's protest the an Air Force press release stated:

Proposals from both offerors were evaluated thoroughly in accordance with the criteria set forth in the Request for Proposals. The proposal from the winning offeror is the one Air Force officials believe will provide the best value to the American taxpayer and to the warfighter. Air Force members followed a carefully structured process, designed to provide transparency, maintain integrity and promote fair competition. Air Force members and the offerors had hundreds of formal exchanges regarding the proposals throughout the evaluation process. Air Force officials provided all offerors with continuous feedback through discussions on the strengths and weaknesses of their proposals. Several

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<sup>110</sup> Boeing News Release, "Boeing Protests U.S. Air Force Tanker Contract Award," March 11, 2008, online at [[http://www.boeing.com/ids/globaltanker/news/2008/q1/080311b\\_nr.html](http://www.boeing.com/ids/globaltanker/news/2008/q1/080311b_nr.html)].

<sup>111</sup> Andrea Shalal-Esa, "Air Force, Northrop Ask GAO to Dismiss Boeing Protest," *Reuters*, March 26, 2008.

<sup>112</sup> Susanna Ray and Edmond Lococo, "Northrop Loses Effort to Dismiss Boeing Protest," *Bloomberg News*, April 2, 2008, online at [<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a2hruo2xpyFQ>].

<sup>113</sup> Sean Reily, "Air Force Keeps Tanker Freeze," *Mobile Press-Register*, March 18, 2008, online at [<http://www.al.com/press-register/stories/index.ssf?/base/news/120583171412090.xml&coll=3>].

<sup>114</sup> Boeing Company News Release, "Boeing Protests U.S. Air Force Tanker Contract Award," March 11, 2008, online at [[http://www.boeing.com/news/releases/2008/q1/080311b\\_nr.html](http://www.boeing.com/news/releases/2008/q1/080311b_nr.html)].

<sup>115</sup> Ibid.

independent reviews assessed the process as sound and thorough.<sup>116</sup>

Even before the Air Force awarded the KC-X contract to Northrop Grumman, Force leaders openly worried that any potential protest could result in KC-X program delays. For example, recently the Air Force's acquisition deputy, Lt. Gen. Donald Hoffman, expressed concern that FY2008 dollars could be put at risk by a protest. However, Congress could potentially remedy this situation by shifting the money to the Air Force's Tanker Transfer Fund — an account Congress established that essentially allows the Air Force flexibility to later designate the year and account for KC-X expenditures.<sup>117</sup> Former Air Force Chief of Staff, Gen. T. Michael Moseley, publically voiced his concern with a possible protest stating, "look what's happened to us with the [CSAR-X] helicopter. We lost \$800 million in this protest and lost over a year and a half of operational time because of not being able to field an airplane."<sup>118</sup> However, defense contractors have a statutory right to protest contract decisions. To many, this right provides both transparency and fairness to the government's acquisition process.

## Why Did the GAO Sustain the Protest?

On June 18, 2008, the GAO announced that it had completed its examination of DOD's decision to award Northrop Grumman the KC-X contract (for 80 aircraft) and found that Boeing's complaint had merit.<sup>119</sup> GAO's managing associate general counsel for procurement law, Michael R. Golden, stated:

Our review of the record led us to conclude that the Air Force made a number of significant errors that could have affected the outcome of what was a close competition between Boeing and Northrop Grumman. We therefore sustain Boeing's protest. We also denied a number of Boeing's challenges to the award to Northrop Grumman, because we found that the record did not provide us with the basis to conclude that the agency had violated the legal requirements with respect to those challenges.

The GAO recommended that discussions between the government and the bidders be resumed, that bidders be given the opportunity to submit revised proposals, and that the Air Force make a new decision based on this additional input.

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<sup>116</sup> "Air Force Officials Respond to Boeing Protest," *Air Force Print News Today*, March 12, 2008, online at [[http://www.af.mil/news/story\\_print.asp?id=123089878](http://www.af.mil/news/story_print.asp?id=123089878)].

<sup>117</sup> Marcus Weisgerber, "Hoffman: Industry KC-X Tanker Protest Could Put Funding at Risk," *Inside the Air Force*, February 22, 2008.

<sup>118</sup> David A. Fulghum, "Moseley Looks Forward to Getting First New Tankers," *Aerospace Daily & Defense Report*, February 29, 2008, p.2.

<sup>119</sup> GAO, "Statement Regarding the Bid Protest Decision Resolving the Aerial Refueling Tanker Protest By The Boeing Company B-311344 et al.," Government Accountability Office (Washington, D.C.), June 18, 2008. Available on the World Wide Web at [<http://www.gao.gov/press/boeingstmt.pdf>].

The Air Force is not statutorily obliged to heed GAO's recommendations but must respond to them within 60 days (August 17, 2008).<sup>120</sup>

The GAO made clear that it was not passing judgement on the relative merits of the proposed aircraft. Instead, the GAO assessed whether the Air Force complied with statutory and regulatory requirements in evaluating the competing bids. GAO cited seven specific reasons for sustaining portions of the Boeing protest, which are summarized below:

1. The Air Force evaluation did not follow the prioritization of technical requirements specified in its own solicitation. Nor did it give credit to the Boeing proposal for satisfying the greater number of non-mandatory technical criteria, though the solicitation expressly requested this.
2. The Air Force used the degree to which the Northrop Grumman bid exceeded a specific key performance objective as an important discriminator between proposals, despite the solicitation's provision stating that this would not be the case.
3. Solicitation required that proposed tankers be able to refuel all fixed-wing, tanker-compatible Air Force aircraft using existing Air Force procedures. The protest record did not support the Air Force's determination that the Northrop Grumman proposal did so.
4. Air Force discussions with each of the bidding companies were unequal and misleading. Boeing was told that it had fully satisfied a key operational utility parameter, yet the Air Force later determined that the Boeing proposal only partially met the requirement. The Air Force continued its discussion with Northrop Grumman on the same key parameter without informing Boeing that its assessment had changed.
5. Northrop Grumman refused to agree to a specific solicitation requirement regarding the development of Air Force maintenance capability within a specified period. The Air Force unreasonably assessed this to be an "administrative oversight" and awarded the contract improperly in light of this exception to a material solicitation requirement.
6. The Air Force unreasonably evaluated the military construction (hangars, runways, parking aprons, etc.) required to sustain each of the proposed aircraft. During the protest proceedings, the Air Force conceded that calculations properly performed would have resulted in a most probable

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<sup>120</sup> GAO also recommended that the Air Force consider amending its proposal solicitation before engaging the companies in the discussions, that it reimburse Boeing for the cost of filing and pursuing the protest, and that it terminate the existing contract with Northrop Grumman if Boeing's proposal is ultimately selected.

life cycle cost for the Boeing offer lower than that for the Northrop Grumman proposal.<sup>121</sup>

7. The Air Force improperly adjusted upward Boeing's estimate of the non-recurring (i.e., one-time) engineering portion of its most probable life cycle cost value. The Air Force would have been able to do so had it found the cost to be unreasonably low, but it did not. Additionally, the cost model used by the Air Force to adjust this cost estimate was unreasonable.

Because the 69-page GAO decision contains sensitive proprietary and source selection information, it was issued under a protective order and is not available to the public. The GAO has directed counsel for the parties to identify information that cannot be publicly released so that a redacted version may be released and posted on the agency's website ([<http://www.gao.gov>]). GAO typically releases a redacted public version of a protected decision within two to three weeks after it is issued.<sup>122</sup>

## Can DOD Split the Tanker Contract Between the Competitors?

Some suggested that the Air Force should split its KC-X acquisition program between Boeing and Northrop Grumman. Although the Air Force has awarded a contract to acquire the first 68 KC-45s to Northrop Grumman, some may believe future KC-X contracts, or potentially the expected KC-Y and KC-Z follow-on acquisition programs, should be competitively sourced.

RAND's analysis of alternatives found that, "a mixed [Air Force tanker] fleet ... has comparable cost-effectiveness, so there is no reason to exclude a priori an Airbus-Boeing mixed buy on cost-effectiveness grounds."<sup>123</sup> Others, including 66 Members of Congress, have indicated they believe that "the Air Force's "winner take all" KC-X competition remains the most cost-effective approach to initiating modernization of the tanker fleet."<sup>124</sup> Further, some have suggested that the idea of a split buy was promoted by the Northrop Grumman team as a hedge against potentially losing the KC-X deal.<sup>125</sup>

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<sup>121</sup> Life cycle cost refers to the total cost of owning, operating, maintaining, and disposing of a given asset. It is often referred to as "cradle-to-grave" cost. Life cycle costs are calculated within a range, from lowest to highest. The "most probable" cost is the one calculated to have the statistically highest probability of being true.

<sup>122</sup> For additional information on the GAO bid protest decision process, see *Bid Protests at GAO: a Descriptive Guide*, Eighth Ed., 2006 (GAO-06-797SP), available on the World Wide Web at [<http://www.gao.gov/decisions/bidpro/bid/d06797sp.pdf>].

<sup>123</sup> Michael Kennedy et al., "Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary," RAND Corporation, 2006, p. 12.

<sup>124</sup> Letter from Members of the House of Representatives to Secretary of the Air Force Michael Wynne, October 2, 2007, online at [[http://www.insidedefense.com/secure/data\\_extra/pdf6/dplus2007\\_3355\\_1.pdf](http://www.insidedefense.com/secure/data_extra/pdf6/dplus2007_3355_1.pdf)].

<sup>125</sup> Demetri Sevastopulo, "U.S. Air Force Will Not Split Tanker Contract," *Financial Times*, (continued...)

**Arguments Favoring a Split Buy.**<sup>126</sup> A leading proponent of “split buy” KC-X acquisition is Dr. Jacques Gansler, a former Under Secretary of Defense for Acquisition, Technology and Logistics during the Clinton Administration. Dr. Gansler has termed his proposal as “Competitive Dual Sourcing”—a concept that would have Boeing and Northrop Grumman compete annually/periodically—as often as DOD were to reopen bidding—for portions of the KC-X acquisition. Dr. Gansler believes that “Competitive Dual Sourcing” is a particularly good fit for the KC-X program as both competing aircraft already have established worldwide logistics networks. Dr. Gansler’s analysis is based on comparisons of the cost growth for ten DOD aircraft programs developed without production competition to the cost of seven commercial aircraft produced in a competitive environment. He found the ten single-source DOD acquisition programs had an average cost increase of 46 percent, while the average of the seven competitively produced commercial airliners had an average cost decrease of 16% over the life of the program.

When analyzing potential savings for the KC-X program, Dr. Gansler, assumed a purchase of 100 new tankers with a base price of \$125 million dollars and a 75/25 split favoring the best-value candidate.<sup>127</sup> Based on these assumptions, he found a competitively sourced tanker acquisition would potentially generate \$7.7 billion in cost savings compared to a single source tanker program provided the cost growth averages of the single-source and competitively sourced aircraft programs examined earlier in his study were repeated in the KC-X program.<sup>128</sup> Some may counter that Dr. Gansler’s study does not definitively conclude dual-sourcing will garner savings or that the magnitude of potential savings would outweigh operational costs, thus resulting in a lower life-cycle cost for DOD. However, proponents may counter that the quantity of the Air Force’s projected KC-X purchase—179 aircraft compared to 100 aircraft in Dr. Gansler’s study—could potentially yield greater savings than those found in the study.

**Arguments Against a Split Buy.**<sup>129</sup> Opponents have expressed opposition to a split buy acquisition strategy for a variety of reasons. Secretary of the Air Force

<sup>125</sup> (...continued)

August 6, 2007.

<sup>126</sup> Many of the arguments in favor of a split-buy are consistent with arguments for the JSF F-136 Alternate Engine. For more information on this program, see CRS Report RL33390, *Proposed Termination of Joint Strike Fighter (JSF) F136 Alternate Engine*, by Anthony Murch and Christopher Bolkcom.

<sup>127</sup> Dr. Gansler’s analysis considered a 75/25 split to be illustrative and found other splits such as 60/40, etc. could be expected to produce similar savings.

<sup>128</sup> Jacques S. Gansler and William Lucyshyn, “Competition in the USAF Tanker Replacement Program,” presentation slides, June 12, 2006, slides 18-19, 24, 35, and 40.

<sup>129</sup> Many argued that DOD should have split the award of the Joint Strike Fighter (JSF) program between the competitors. DOD chose instead to award the contract to a single team. Many of the arguments for this decision are consistent with arguments against a split purchase of tankers. For more information, see CRS Report RL31360, *Joint Strike Fighter (JSF): Potential National Security Questions Pertaining to a Single Production Line*, by Christopher Bolkcom and Daniel Else.

Michael Wynne reportedly believes the Air Force lacks funding to buy tankers in sufficient numbers to justify a split arrangement as he stated, “the cost of that would be prohibitive, unless there was sufficient funding to essentially buy between 24 and 30 [annually].”<sup>130</sup> One analyst cited the cost of maintaining separate supply chains and dual training programs for aircrew and mechanics when he stated, “dual sourcing is a bad idea that would waste billions.”<sup>131</sup> In addition to the costs of operating an air refueling fleet comprised of potentially four aircraft (KC-10, KC-135, KC-30 and KC-767) some in Congress believe a split purchase would add needless operational complexity. Those that hold this view believe the planned fleet — consisting of three tanker aircraft types — will already provide flexibility. Further, some have noted the Air Force plans at least two additional tanker competitions (KC-Y and KC-Z) in the future.<sup>132</sup> To some, these potential future programs offer avenues to reopen competition in the future. Further, a senior Air Force official reportedly told members of Congress that shifting to a split-buy acquisition strategy would result in a contract delay of 12 to 18 months while doubling development costs to \$4 billion.<sup>133</sup>

## Where Might KC-X Aircraft Be Based?

Aircraft basing decisions are often based on operational considerations, available infrastructure, and environmental impact among other concerns.

In January 2008, the Air Force released an “Air Force Roadmap” for each of its major mission areas. The Roadmap lists the following as potential bases “being considered” for new KC-X aircraft: Altus AFB, OK; Andrews AFB, MD; Bangor International Airport, ME; Birmingham International Airport, AL; Edwards AFB, CA; Eielson AFB, AK; Forbes Field, KA; Grand Forks AFB, ND; Grissom Air Reserve Base, IN; Hickam AFB, HI; Lincoln Municipal Airport, NE; MacDill AFB, FL; March Air Reserve Base, CA; McConnell AFB, KS; McGhee Tyson Airport, TN; McGuire AFB, NJ; Pease Air National Guard Base, NH; Phoenix Sky Harbor International Airport, AZ; Pittsburgh International Airport, PA; Rickenbacker International Airport, OH; Salt Lake City International Airport, UT; Scott AFB, IL; Selfridge Air National Guard Base, MI; Seymour Johnson AFB, NC; Sioux Gateway Airport, IA; and Tinker AFB, OK.<sup>134</sup>

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<sup>130</sup> Andrea Shalal-Esa, “U.S. Air Force Sees Single Tanker Winner,” *Reuters*, December 4, 2007.

<sup>131</sup> George Talbot, “Lawmakers: Don’t Split Tanker Contract; Boeing Supporters — 14 Senators and 48 Representatives — Write to Air Force,” *Mobile Press-Register*, October 13, 2007.

<sup>132</sup> Letter from Senators to Secretary of the Air Force Michael Wynne, October 10, 2007, online at [[http://www.insidedefense.com/secure/data\\_extra/pdf6/dplus2007\\_3355\\_2.pdf](http://www.insidedefense.com/secure/data_extra/pdf6/dplus2007_3355_2.pdf)].

<sup>133</sup> Andrea Shalal-Esa, “Split Buy of U.S. Tankers Could Save Billions - Study,” *Reuters*, August 3, 2007.

<sup>134</sup> “Air Force Roadmap,” online at [<http://www.af.mil/library/airforceroadmap/globalreach.asp>].

More recently, Air Force Chief of Staff, Gen. T. Michael Moseley, reportedly said that he expects the first KC-45 to go to Edwards AFB, CA, for operational testing. He anticipates the next few aircraft to be assigned to Altus AFB, OK, the current training base for KC-135s, where pilots and boom operators will validate the training syllabi for the KC-45. Gen. Moseley reportedly stated that the first operational KC-45s will go to one of four bases — Fairchild AFB, WA; Grand Forks AFB, ND; MacDill AFB, FL; or McConnell AFB, KA.<sup>135</sup>

## Potential Options to Augment KC-X Recapitalization

RAND's 2006 Analysis of Alternative's (AOA) concluded that purchasing new, commercial off-the-shelf aircraft to recapitalize DOD's tanker fleet is the least expensive option for recapitalizing the KC-135 fleet from a life-cycle cost perspective — a view widely shared among defense analysts. However, this course of action is also capital intensive in the near-term when compared with other potential courses of action. Considering other budget pressures faced by DOD, it might be infeasible to purchase 500 new tanker aircraft. At least three options could be pursued to augment the KC-X program:

- Buy and convert surplus commercial airliners into military tankers
- Re-engine some fraction of the KC-135E fleet
- Develop commercial Fee-For-Service aerial refueling (FFS AR)

## Convert Used Commercial Aircraft into Tankers

The Air Force has argued against purchasing surplus commercial aircraft and converting them into military tankers. However, RAND's AOA appears to agree with the earlier DSB study — although with distinct caveats — that purchasing used aircraft may merit additional study. RAND's AOA found that purchasing used aircraft as tankers is “generally not as cost effective” (as purchasing new aircraft), but “...close enough in estimated cost to not exclude it from competition.”<sup>136</sup>

Some have suggested that surplus DC-10 aircraft, in particular, might offer attractive means of acquiring air refueling capabilities for less money up-front.<sup>137</sup> Those that hold this view point out the Air Force already operates the similar KC-10 — a commercial derivative that “retains 88 percent systems commonality with the DC-10.”<sup>138</sup> Thus, significant additional investments may not be required in operations, maintenance, and supply if surplus DC-10s were procured and converted

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<sup>135</sup> David A. Fulghum, “Moseley Looks Forward to Getting First New Tankers,” *Aerospace Daily & Defense Report*, February 29, 2008, p.2.

<sup>136</sup> *Ibid*, p. 12.

<sup>137</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, p. 36.

<sup>138</sup> USAF Fact Sheet, KC-10 Extender, September 2006, online at [<http://www.af.mil/factsheets/factsheet.asp?id=109>].

into Air Force tankers. Likewise, some may suggest that surplus aircraft of the design selected in the KC-X competition may also be worthy of future consideration. Both of these options would seem to assuage Air Force concerns of adding additional aircraft types to the air refueling fleet. While it is unlikely that a large portion of the Air Force's air refueling fleet could be recapitalized with used commercial aircraft, proponents of this alternative may believe that even a small number of used aircraft could potentially free scarce budget dollars for other DOD priorities.

Some have questioned the feasibility of this approach. A 2004 Government Accountability Office (GAO) study pointed out that there can be a wide variance in the amount of use the Air Force could expect from used commercial aircraft — some are relatively new with low flying hours while others are older with high flying hours.<sup>139</sup> The GAO also questioned whether owners would be willing to sell the Air Force available suitable aircraft.<sup>140</sup> Further, each potential used aircraft may require a unique cost analysis based on airframe service life remaining and the cost of equipping the aircraft to match like-model airplanes already operating in the Air Force's fleet. Additionally, given Air Force opposition to "split-buy" proposals, it is unlikely the Air Force would support bringing additional aircraft types into its inventory due to the associated costs for maintenance, spare parts, and crew training.

A factor of potential significance that has arisen subsequent to most of the independent studies cited in this report is the rising operating costs due to increased jet fuel prices. This is of particular importance with older, less fuel-efficient aircraft. According to the International Air Transport Association, the average cost of a barrel of jet fuel rose from \$34.70 in 2003 to \$81.90 in 2006.<sup>141</sup> As a result, Northwest Airlines — the last major U.S. passenger airline to operate the DC-10 — announced it would accelerate retirement of its DC-10 fleet.<sup>142</sup> In January 2007, Northwest removed the DC-10 from scheduled service replacing it with new airliners expected to provide fuel savings of 35 percent.<sup>143</sup> Since the Northwest retired its last DC-10, jet fuel prices have risen 62% to \$116.00 per barrel in February 2008.<sup>144</sup> Thus, some may question the economic merits of converting older airliners into tankers for the Air Force.

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<sup>139</sup> *Military Aircraft: DOD Needs to Determine Its Aerial Refueling Aircraft Requirements*, GAO-04-349, Washington, D.C., June 2004, p. 27.

<sup>140</sup> Ibid.

<sup>141</sup> "IATA Economic Briefing: Airline Fuel and Labour Cost Share," International Air Transport Association, June 2007, p. 1, online at [[http://www.iata.org/NR/rdonlyres/4A49F6DA-2B12-48A9-A283-E035AEA5D165/0/Airline\\_Labour\\_Cost\\_Share.pdf](http://www.iata.org/NR/rdonlyres/4A49F6DA-2B12-48A9-A283-E035AEA5D165/0/Airline_Labour_Cost_Share.pdf)].

<sup>142</sup> Perry Flint, Air Transport World's *Daily News*, June 29, 2006, online at [<http://www.atwonline.com/news/other.html?issueDate=6/29/2006>].

<sup>143</sup> Press Release, "Northwest Brings Customer Comforts of Airbus A330 Aircraft to Twin Cities-Honolulu route: Airline Completes Retirement of DC-10 Fleet After 34 Years of Service," Minneapolis, January 8, 2007, online at [<http://www.nwa.com/corpinfo/news/2007/pr010820071733.html>].

<sup>144</sup> "Jet Fuel Price Monitor," International Air Transport Association, February 15, 2008, online at [[http://www.iata.org/whatwedo/economics/fuel\\_monitor/index.htm](http://www.iata.org/whatwedo/economics/fuel_monitor/index.htm)].

## Retire or Re-engine KC-135Es

Some have suggested modernizing the KC-135E models into more capable “R” models as an approach to recapitalizing the KC-135 fleet. In contrast, Air Force officials have consistently expressed a desire to retire the “E” model fleet. Both RAND and the DSB made observations about the KC-135 that may be useful in informing decisions about the KC-135E fleet.

**Viability of the KC-135E Fleet.** In a 2001 study the Air Force concluded that the KC-135E fleet is “structurally viable until 2040.”<sup>145</sup> A 2005 Air Force Study estimated — with numerous caveats — that KC-135E aircraft upgraded to the “R” configuration would remain viable until 2030.<sup>146</sup> Further, the 2004 DSB Task force pointed out that the engine struts that attach KC-135E-model engines to the aircraft’s wing are at the end of their service life. The close proximity of the strut to the engine subjects the struts to high temperatures and corrosive environments. If the KC-135Es were to be retained, but not re-engined, a major structural repair would have to be accomplished.<sup>147</sup>

**Recapturing Modernization Costs.** RAND’s AOA did not rule out re-engining some KC-135Es. However, the AOA determined conversion would only bolster overall fleet effectiveness by about 2 percent. The study also found that re-engining “E” models was “not a favorable return on investment unless operated into late 2030s.”<sup>148</sup> Air Force leadership believes that dollars necessary to modernize the “E” models are better spent on KC-X. For example, former Secretary of the Air Force, Michael Wynne testified to Congress in October 2007 that,

“One thing that’s for sure is that we have 44-year-old tankers. One thing for sure is that some of those tankers will go to age 75 before we can retire them, simply because of affordability — that we cannot afford the rate of growth. Even if we were to award today, we can forecast that they would be 75 years old.

Our plan is to go ahead and put that program into action — retire the KC-135Es with the accession of the KC-X. And our plan then is to essentially prolong the best of the KC-135Rs until we can fully replace and amortize those. The KC-10s as well will look like they’re going to span and work for another 20 to 25 years.”<sup>149</sup>

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<sup>145</sup> *KC-135 Economic Service Life Study*. Technical Report. February 9, 2001.

<sup>146</sup> *KC-135 Assessment Report*. Air Force Fleet Viability Board. September 2005.

<sup>147</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, pp. iv-v.

<sup>148</sup> Michael Kennedy et al., “Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary,” RAND Corporation, 2006, p. 15.

<sup>149</sup> House Armed Services Committee Holds Hearing on Air Force Strategic Initiatives, October 24, 2007.

**Legislative Action.** The 2004 National Defense Authorization Act (NDAA) allowed the Air Force to retire 12 KC-135Es.<sup>150</sup> However, both the 2005 and 2006 NDAAAs prohibited the Air Force from retiring KC-135Es.<sup>151</sup> The 2007 NDAA allowed the Air Force to retire no more than 29 KC-135Es in FY2007 while stipulating that all “E” models retired after September 30, 2006 be stored in a manner that would allow their later recall.<sup>152</sup> The 2008 NDAA allowed the Air Force to retire an additional 48 aircraft and provided conditional authority to retire the remaining 37 KC-135Es upon award of the KC-X contract and after any subsequent protests are settled favorably.<sup>153</sup>

## Fee-For-Service Air Refueling

Fee-for-Service air refueling (FFS AR) is a potential program where the Air Force may outsource a portion of its air refueling requirements to a defense contractor. Both the 2004 DSB task force and the 2006 RAND AOA addressed FFS AR although some may question the assumptions RAND’s analysis was based upon. Additionally, some Air Force officials have questioned how much potential interest there may be in the commercial sector to provide the necessary capital investment required to develop a fleet of aircraft with air refueling capability.<sup>154</sup> Currently, there is one commercial FFS AR operator, and the United Kingdom’s Royal Air Force is planning to recapitalize its aging tanker fleet with a type of FFS AR program. The Air Force has been publically supportive of studying FFS AR, but cautious based on concerns FFS AR may divert funds from its KC-X.<sup>155</sup> The 2008 National Defense Authorization Act stipulated that DOD must further study the FFS AR concept.

**What Independent Studies Say.** The 2004 DSB task force recommended that the Air Force consider “arranging for contractors to provide some of the aerial refueling needs.”<sup>156</sup> In contrast, RAND’s AOA concluded,

“There is no compelling reason for the Air Force to outsource aerial refueling, that is, to purchase aerial-refueling capability from private companies instead of providing it organically.”<sup>157</sup>

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<sup>150</sup> H.Rept. 108-354, Section 134, Conference Report to Accompany H.R. 1588, p. 23.

<sup>151</sup> H.Rept. 108-767, Section 131, Conference Report to Accompany H.R. 4200, p. 19 and H.Rept. 109-360, Section 132, Conference Report to Accompany H.R. 1815, p. 28.

<sup>152</sup> H.Rept. 109-702, Section 135, Conference Report to Accompany H.R. 5122, p. 33.

<sup>153</sup> H.Rept. 110-477, Section 135, Conference Report to Accompany H.R. 1585, pp. 30-31.

<sup>154</sup> “Filler’ Up,” *Defense Daily*, February 19, 2008, Volume 237, Issue 32.

<sup>155</sup> Caitlin Harrington, “USAF Pushes for ‘Fee-For-Service’ Aerial Refueling Programme,” *Jane’s Defence Weekly*, October 31, 2007, online at [http://www.janes.com].

<sup>156</sup> *Defense Science Board Task Force Report on Aerial Refueling Requirements*, May 2004, p. ix.

<sup>157</sup> Michael Kennedy et al., “Analysis of Alternatives (AoA) for KC-135 Recapitalization, Executive Summary,” RAND Corporation, 2006, p. 13.

RAND's AOA reached this conclusion based on two underlying assumptions. First, the AOA assumed that "all tanker aircraft must carry a common wartime set of equipment ... be capable of carrying out wartime missions," and "be capable of sustaining the high operational tempo associated with wartime."<sup>158</sup> Thus, the AOA found that based on these requirements, there was "no demonstrable large-scale cost savings associated with tanker outsourcing."<sup>159</sup> Second, the AOA believed that the fact that contract tanker operators could also use their aircraft to generate revenue through the commercial marketplace (e.g., flying cargo flights) while the Air Force is prohibited from serving commercial markets distorted side-by-side comparisons of FFS AR with organic air refueling assets.

**Counter Arguments to RAND's Assumptions.** Proponents of FFS AR may point out that while commercial air carriers may have limitations from participating in combat, they can still make a contribution during wartime. For example, United States Transportation Command has access to a large number of commercial airliners during contingencies through the Civil Reserve Air Fleet (CRAF).<sup>160</sup> Just as CRAF airliners are able to supplement DOD's organic airlift capabilities during surge wartime operations, there may be air refueling contributions FFS AR partners can make during wartime as well. For example, perhaps FFS AR contractors could help keep training pipelines open, refuel homeland defense aircraft, or facilitate deployment across transoceanic air bridges — all missions organic tankers would need to perform during wartime, but missions that would not likely expose civilians to combat. CRAF partners, often receive a portion of DOD's contract airlift business in exchange for their participation in the program. Further, CRAF partners remain active in the commercial marketplace. In the same way a FFS AR contractor may desire to configure the fuselage of their tankers to carry cargo, thus, giving FFS AR the ability to pursue both government and commercial contracts.

**FFS AR Examples.** Currently, Omega Air Refueling Services operates two converted Boeing 707s as a FFS AR carrier servicing the U.S. Navy. Omega also expects to add a converted DC-10 in 2008.<sup>161</sup> Reportedly, Omega would like to perform FFS AR for the Air Force as well.<sup>162</sup>

The United Kingdom's Royal Air Force (RAF) recently signed a \$26 million, 27-year contract with Air Tanker to meet its future air refueling needs through a type of FFS AR program known as the Future Strategic Tanker Aircraft (FSTA) program.<sup>163</sup> In 2004, Air Tanker, a consortium of companies including the VT

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<sup>158</sup> Ibid.

<sup>159</sup> Ibid.

<sup>160</sup> For more on CRAF see CRS Report RL33692, *Civil Reserve Air Fleet (CRAF)*, by William Knight and Christopher Bolkcom.

<sup>161</sup> [<http://www.omegaairrefueling.com>].

<sup>162</sup> Caitlin Harrington, "USAF Pushes for 'Fee-For-Service' Aerial Refueling Programme," *Jane's Defence Weekly*, October 31, 2007, online at [<http://www.janes.com>].

<sup>163</sup> Tim Hepner and Golnar Motevalli, "Britain Signs Air Tanker Deal," *Reuters*, March 27, (continued...)

Group, European Aeronautic Defense and Space Company (EADS), and Rolls-Royce, was selected to manage the FSTA program using the passenger version of the Airbus 330-200.<sup>164</sup> FSTA is a private-finance initiative whereby the RAF will pay on a “tanker-for-hire” basis subject to agreed upon minimum usage rates.<sup>165</sup> When the planes are not being used by the RAF, Air Tanker would be able to offer them for hire, presumably as transports, in commercial markets.<sup>166</sup> However, obtaining financing for the FSTA program was problematic. Service entry is now expected in 2011 for the first of 14 leased aircraft.<sup>167</sup> Crewing of the planes has also been viewed by some as controversial. Plans call for flying the planes with a core group of RAF pilots while supplementing those crews with Air Tanker pilots that will be required to maintain “reserve” status with the RAF. This arrangement is expected to provide sufficient RAF aircrew to fill normal peacetime requirements as well as a group of pilots that can fly in either civilian or military status as requirements dictate.<sup>168</sup>

**Legislative Action.** The 2008 National Defense Authorization Act (NDAA) directs the Air Force to conduct a pilot program of at least five years to evaluate the feasibility of FFS AR (P.L. 110-181). The evaluation requires the Air Force to assess FFS AR across a broad range of mission sets to include testing support, training support to receiver aircraft, homeland defense, deployment support, air bridge support, aeromedical evacuation and emergency air refueling while integrating FFS AR into Air Mobility Command’s day-to-day operations. Further Congress has required the Air Force to submit an annual report to Congressional defense committees highlighting key operational metrics and assessing the impact of FFS AR on the Air Force’s flying hour program and aircrew training. Finally, the 2008 NDAA requires the Comptroller General’s office to conduct an annual review with recommendations for improvement of the Air Force’s FFS AR pilot program as well as a final analysis of the pilot program upon program completion (P.L. 110-181).<sup>169</sup> Reportedly, the Air Force plans to release a request for information to gauge industry interest and cost projections for the required FFS AR pilot program.<sup>170</sup>

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<sup>163</sup> (...continued)  
2008.

<sup>164</sup> “Airbus A330 - EADS KC-330 Tanker/Transport,” *Jane’s Aircraft Upgrades*, August 17, 2007, online at [<http://www.janes.com>].

<sup>165</sup> Keri Smith, “Air Tanker Remains Confident FSTA is on Track,” *Jane’s Defence Weekly*, October 31, 2007, online at [<http://www.janes.com>].

<sup>166</sup> Nick Cook, “Tanker PFI is a Pathfinder for Procurement,” *Jane’s International Defence Review*, January, 1, 2003, online at [<http://www.janes.com>].

<sup>167</sup> Tim Hepner and Golnar Motevalli, “Britain Signs Air Tanker Deal,” *Reuters*, March 27, 2008.

<sup>168</sup> Nick Cook, “Tanker PFI is a Pathfinder for Procurement,” *Jane’s International Defence Review*, January, 1, 2003, online at [<http://www.janes.com>].

<sup>169</sup> H.Rept. 110-477, Section 1081, Conference Report to Accompany H.R. 1585, pp. 335-336.

<sup>170</sup> “Filler’ Up,” *Defense Daily*, February 19, 2008, Volume 237, Issue 32.

## Appendix A. Previous Issue for Congress

One issue of significant interest to earlier sessions of Congress involved the controversy that surrounded earlier DOD attempts to replace some KC-135s using a proposed lease program

### Modernization Controversy

Modernizing or replacing the Air Force tanker fleet has been a point of contention for more than a decade. In 1996, the General Accounting Office (GAO) asserted that the long-term viability of the KC-135 fleet was questionable and advocated expeditiously studying replacement options. DOD countered that KC-135 airframe hours were low and that the Air Force could sustain the fleet for another 35 years.<sup>171</sup> In 2001, the Air Force reported that the KC-135 fleet would incur “significant cost increases” between 2001 and 2040, but “no economic crisis is on the horizon...there appears to be no run-away cost-growth,” and “the fleet is structurally viable to 2040.”<sup>172</sup> At that time, the Air Force position on tanker modernization was to conduct an analysis of alternatives (AOA) to determine the optimal replacement option for KC-135s. It would begin recapitalization in the 2012 time frame to meet KC-135 retirement by 2040 when the Air Force expects the KC-135 to reach the end of its service life.

Section 8159 of the FY2002 National Defense Appropriations Act (P.L. 107-117) authorized the Air Force to lease 100 Boeing KC-767 aircraft to replace some of the oldest and least capable KC-135s — the “E-models.” This proposal proved controversial because section 8159 appeared to depart from traditional acquisition processes and weaken congressional oversight. The Government Accountability Office also concluded that a lease would cost more than procuring the aircraft.<sup>173</sup> Further, many found Air Force arguments in favor of the lease to contradict its position of just a year prior. Congress debated the proposed lease in four hearings, culminating with a pair of Senate hearings in September 2003.<sup>174</sup> Subsequently, alleged and admitted ethical violations by government and industry representatives involved in the lease proposal added to the controversy.

The FY2004 Defense Authorization Act (P.L. 108-136, Sec.135) forged a compromise between opponents and proponents of the KC-767 by giving the Air Force permission to lease 20 tanker aircraft and purchase an additional 80 aircraft. Section 134 of this act prohibited the Air Force from retiring in FY2004 more than 12 KC-135Es. In September 2004, the Air Force announced it had grounded 29 KC-135Es due to safety concerns. Conferees also mandated that the Air Force conduct

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<sup>171</sup> GAO/NSIAD-96-160.

<sup>172</sup> “KC-135 Economic Service Life Study,” Technical Report F34601-96-C-0111, February 9, 2001.

<sup>173</sup> Neil P. Curtan, *Military Aircraft: Observations on the Proposed Lease of Aerial Refueling Aircraft by the Air Force*, GAO-03-1143T, Washington, D.C., September 3, 2003.

<sup>174</sup> See CRS Report RL32056, *The Air Force KC-767 Tanker Lease Proposal: Key Issues for Congress*, coordinated by Christopher Bolkcom.

an air refueling AOA and that an independent assessment be conducted on the condition of the KC-135E fleet.

On February 1, 2004, former Deputy Secretary of Defense Paul Wolfowitz requested that the Defense Science Board (DSB) conduct the independent analysis of the KC-135E fleet, and on February 24, 2004, former acting Undersecretary of Defense for Acquisition Michael Wynne directed the Air Force to conduct an aerial refueling AOA. Although it had the statutory authority to proceed, DOD did not request any funds for FY2005 to lease 20 aircraft or procure 80 aircraft. Defense Department leaders instead deferred executing either action until the completion of the DSB report, and an internal investigation by the DOD Inspector General (IG) on potential improprieties by Boeing Company executives and whether these activities negatively effected the tanker lease program.

On April 20, 2004, Darleen A. Druyan, the former lead Air Force negotiator on the tanker lease program, pleaded guilty to one charge of criminal conspiracy. Ms. Druyan admitted to secretly negotiating an executive job with the Boeing company while still overseeing the \$23 billion deal between the Air Force and Boeing.<sup>175</sup> Lease supporters argued that Ms. Druyan was a single “bad apple” and that her actions did not negate the KC-767’s merits. Reportedly In February 2005, however, the DOD IG found that Air Force Secretary James Roche misused his office when he lobbied the Office of Management and Budget (OMB) to support the lease concept.<sup>176</sup> The IG’s final report found that four other senior DOD officials were guilty of evading OMB and DOD acquisition regulations that are designed to demonstrate best business practices and to provide accountability. The DOD IG found that senior DOD officials knowingly misrepresented the state of the KC-135 fleet and air refueling requirements.<sup>177</sup>

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<sup>175</sup> R. Merle, “Ex-Pentagon Official Admits Job Deal,” *Washington Post*, April 21, 2004.

<sup>176</sup> R. Jeffrey Smith, “Roche Cited for 2 Ethics Violations,” *Washington Post*, February 10, 2005.

<sup>177</sup> *Management Accountability Review of the Boeing KC-767A Tanker Program*, Office of the Inspector General of the Department of Defense, OIG-2004-171, May 13, 2005.

## Appendix B. KC-135R System Description

<b>Power plant:</b>	Four CFM International CFM-56 turbofans
<b>Wingspan:</b>	130 feet, 10 inches
<b>Length:</b>	136 feet, 3 inches
<b>Height:</b>	41 feet, 8 inches
<b>Passengers</b>	54
<b>Cargo Pallets</b>	6
<b>Maximum Fuel Capacity</b>	200,000 pounds

**Source:** USAF Fact Sheet, KC-135 Stratotanker, online at [<http://www.af.mil/factsheets/factsheet.asp?id=110>] and *The Air Force Handbook: 2007*.

**Figure 3. KC-135 Refueling Air Force Fighters**



**Source:** USAF photo by SSgt Suzanne Day.

## Appendix C. KC-10 System Description

<b>Power plant:</b>	Three General Electric CF6-50C2 turbofans
<b>Wingspan:</b>	165 feet, 4.5 inches
<b>Length:</b>	181 feet, 7 inches
<b>Height:</b>	58 feet, 1 inch
<b>Passengers</b>	75
<b>Cargo Pallets</b>	27
<b>Maximum Fuel Capacity</b>	356,000 pounds

**Source:** USAF Fact Sheet, KC-10 Extender, September, 2006, online at [http://www.af.mil/factsheets/factsheet.asp?id=109].

**Figure 4. KC-10 Refueling Air Force Fighters**



**Source:** USAF photo.

## Appendix D. KC-767 System Description

<b>Wingspan:</b>	156 feet, 1 inch
<b>Length:</b>	159 feet, 2 inches
<b>Height:</b>	52 feet
<b>Passengers</b>	190
<b>Cargo Pallets</b>	19
<b>Patients</b>	97 for aeromedical evacuation
<b>Maximum Fuel Capacity</b>	more than 200,000 pounds

**Source:** The Boeing Company online at [[http://www.boeing.com/ids/globaltanker/usaf/KC\\_767/specs.html](http://www.boeing.com/ids/globaltanker/usaf/KC_767/specs.html)].

**Figure 5. Artist Impression of KC-767**



**Source:** Jane's All The World's Aircraft at [<http://www.janes.com>].

## Appendix E. KC-30 System Description

<b>Wingspan:</b>	197 feet, 10 inches
<b>Length:</b>	192 feet, 11 inches
<b>Height:</b>	57 feet, 1 inch
<b>Passengers</b>	226
<b>Cargo Pallets</b>	32
<b>Patients</b>	108 for aeromedical evacuation
<b>Maximum Fuel Capacity</b>	245,000 pounds

**Source:** Northrop Grumman, pamphlet, "KC-30 Tanker: Total Air Mobility."

**Figure 6. Artist Impression of KC-30**



**Source:** Jane's All The World's Aircraft at [<http://www.janes.com>]

## Appendix F. Key Suppliers for Commercial Variants of the Boeing 767 and Airbus 330

**Table 4: Suppliers and Corporate Parent Domiciles for Components Incorporated into the Boeing 767**

Supplier	Parent Country	Component(s)
Aero Vodochody	Czech Republic	airframe parts (for BAE Systems)
Alenia	Italy	wing control surfaces, flaps and leading-edge slats, wingtips, elevators, fin rudder, nose radome
Avcorp	Canada	front and rear spar stiffeners, floor grid details and assemblies, aft strut fairings
Boeing Canada	Canada	fixed trailing edge panels, composite wing-to-body fairings, engine strut fairings
Bombardier (Learjet)	Canada	wing trailing edge support structures
Bombardier (Canadair)	Canada	rear fuselage, pressure bulkhead
Daido Steel	Japan	steel sheets
Embraer	Brazil	flap supports
Fuji	Japan	wing fairings, main landing gear doors
Fujukawa Aluminum	Japan	forgings and extensions
GKN Aerospace (Westland Aerospace, formerly BP Chemicals; with Lucas Aerospace Cargo Systems)	United Kingdom	flap track fairings
Goodrich (Cleveland Pneumatic)	United States	main landing gear
Hitco Carbon Composites	United States	flap track fairings
IPTN	Indonesia	flaps, keel beams (for Mitsubishi)
Kaman Aerospace	United States	wing trailing edges
Kawasaki Heavy Industries	Japan	center-fuselage body panels, exit hatches, wing in-spar ribs
Korean Aerospace (Samsung)	Republic of Korea	wing trailing edges

Supplier	Parent Country	Component(s)
LMI Aerospace	United States	skins, wing panels, floor beams, curtain tracks
Lunn Industries (Alcore)	United States	leading edge slat core assemblies (for ASTA)
Menasco Aerospace	United States	nose landing gear unit
Mitsubishi Heavy Industries	Japan	rear fuselage body panels, stringers, passenger and cargo doors, dorsal fin
Nihon Kokuki (Nippi)	Japan	wing in-spar ribs, various structural components for Mitsubishi
PPG Industries	United States	landing light lens assemblies, cockpit windows
Shin Meiwa	Japan	tailplane trailing edges (for Northrop Grumman/Vought)

**Source:** Teal Group

**Note:** Commercial variants powered by engines manufactured by either General Electric, Pratt & Whitney, or Rolls Royce.

**Table 5: Suppliers and Corporate Parent Domiciles for Components Incorporated into the Airbus 330/350<sup>178</sup>**

Supplier	Parent Domicile	Component(s)
Advanced Technology and Research (ATR) Corp.	United States	graphite epoxy underwing fairings (for Aerostructures Corp.)
Aerostructures Corp. (Now Vought)	United States	inner spoilers/airbrakes, center spar, upper wing skin panels, inner and outer wingbox leading edge assemblies (for BAE), outer flaps, flap track shrouds, spoiler parts (for DASA-EADS)
AHF-Ducommun	United States	leading edge wing skins
Boeing (Aerospace Technologies of Australia)	United States	main gear doors, floor support structure, pressurization bulkhead between passenger cabin, main landing gear compartment (for Aérospatiale-EADS)

<sup>178</sup> The Airbus 350 is a planned model that will be similar in size to the Airbus 330. It was originally expected to be a derivative of the Airbus 330, but is now expected to be a new design aircraft.

Supplier	Parent Domicile	Component(s)
Bombardier (Canadair)	Canada	leading edge wing assemblies, nose gear bay and doors, nose bottom fuselage, rear sealed frame, ventral beam, pressurized lateral floor, aft pressure bulkhead (for Aérospatiale-EADS), inboard front spar assembly (for BAE)
BTR Aerospace	Canada	main landing gear fairings
CC Industries	United States	outer rear spar, main landing gear support, ribs (for BAE)
Ciba-Geigy Corp.	Federal Republic of Germany	HTA/6376 prepreg on wings
Dowty Aerospace Canada	Canada	center landing gear
Dowty Rotol (with Cleveland Pneumatic)	United Kingdom	design and manufacture of main landing gear
Fairchild Dornier	Federal Republic of Germany	fuselage and wing components, interior panels
Fischer Advanced Composite Components	Federal Republic of Germany	interior components (for DASA-EADS)
GKN Aerospace (formerly BP Advanced Materials)	United Kingdom	composite panels (for BAE)
General Engineering	Unknown	side stay fairing
Hawker de Havilland, Australia	Australia	wingtips, winglets, wing root fillet, ribs (for BAE)
Heath Techna Aerospace	United States	composite components (for BAE)
IPTN	Indonesia	flap track carriages, sheet metal parts (for BAE)
Korean Aerospace Industries (Daewoo)	Republic of Korea	wing components
Korean Air (with Silat)	Republic of Korea	upper fuselage panels of Section 15 (for Aérospatiale-EADS)
Marion Composites	United States	flap track fairings (for Aerostructures Corp.)
Marvin Group	United States	large ribs (for BAE)

Supplier	Parent Domicile	Component(s)
Messier-Hispano-Bugatti	France	nose landing gear, wheels and brakes (option)
Mitsubishi Heavy Industries	Japan	cargo doors
PPG Industries	United States	cockpit windows
RTI International Metals	United States	titanium on A350
SABCA	Belgium	tailcones (for DASA)
Shin Meiwa	Japan	wing fairings
Socea	France	rear upper panels of center fuselage section
SOCATA	France	composite belly fairing
SONACA	Belgium	full-span leading edge slats, slat tracks
Xian Aircraft Co. (AVIC-1)	Peoples Republic of China	avionics access doors

**Source:** Teal Group

**Note:** Commercial variants of both aircraft types are powered by engines manufactured by either General Electric, Pratt & Whitney, or Rolls Royce.